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**CERTIFIED COPY OF CERTAIN RESOLUTIONS ADOPTED BY THE BOARD OF
DIRECTORS WHEREBY THE ESTABLISHMENT AND MAINTENANCE
OF SECURITY CASH ACCOUNTS HAVE BEEN AUTHORIZED**

RESOLVED -

FIRST: That the President or any Vice-President of this Corporation, or
be and they hereby are, and each of them hereby is, authorized and empowered, for and
on behalf of this Corporation (herein called the "Corporation"), to establish and maintain one or more
accounts, with Lehman Brothers Incorporated for the purpose of purchasing, investing in, or otherwise
acquiring, selling, possessing, transferring, exchanging, or otherwise disposing of, or turning to account of, or
realizing upon, and generally dealing in and with any and all forms of securities including, but not by way
of limitation, shares, stocks, bonds, debentures, notes, scrip, participation certificates, rights to subscribe,
option warrants, certificates of deposit, mortgages, choses in action, evidences of indebtedness, commercial
paper, certificates of indebtedness and certificates of interest of any and every kind and nature whatsoever,
secured or unsecured, whether represented by trust, participating and/or other certificates or otherwise;
but such authorization shall not include the opening of marginal accounts or the making of short sales.

The fullest authority at all times with respect to any such commitment or with respect to any transaction
deemed by any of the said officers and/or agents to be proper in connection therewith is hereby conferred,
including authority (without limiting the generality of the foregoing) to give written or oral instructions
to Lehman Brothers Incorporated with respect to said transactions; to bind and obligate the Corporation
to and for the carrying out of any contract, arrangement, or transaction, which shall be entered into by
any such officer and/or agent for and on behalf of the Corporation with or through Lehman Brothers Incorporated;
to pay in cash or by checks and/or drafts drawn upon the funds of the Corporation such sums
as may be necessary in connection with any of the said accounts; to deliver securities to, and deposit funds
with, Lehman Brothers Incorporated; to order the transfer or delivery of securities to any other person
whatsoever, and/or to order the transfer of record of any securities to any name selected by any of the said
officers or agents; to affix the corporate seal to any documents or agreements, or otherwise; to endorse any
securities in order to pass title thereto; to direct the sale or exercise of any rights with respect to any securities;
to sign for the Corporation all releases, powers of attorney and/or other documents in connection with
any such account, and to agree to any terms or conditions to control any such account; to direct Lehman
Brothers Incorporated to surrender any securities to the proper agent or party for the purpose of effecting
any exchange or conversion, or for the purpose of deposit with any protective or similar committee, or otherwise;
to accept delivery of any securities; to appoint any other person or persons to do any and all things
which any of the said officers and/or agents is hereby empowered to do, and generally to do and take all
action necessary in connection with the account, or considered desirable by such officer and/or agent with
respect thereto.

SECOND: That Lehman Brothers Incorporated may deal with any and all of the persons directly or
indirectly by the foregoing resolution empowered, as though they were dealing with the Corporation directly.

THIRD: That the Secretary of the Corporation be and he hereby is authorized, empowered and directed
to certify, under the seal of the Corporation, or otherwise, to Lehman Brothers Incorporated:

- (a) a true copy of these resolutions;
- (b) specimen signatures of each and every person by these resolutions empowered;
- (c) a certificate (which, if required by Lehman Brothers Incorporated, shall be supported by an
opinion of the general counsel of the Corporation, or other counsel satisfactory to Lehman Brothers Incorporated)
that the Corporation is duly organized and existing, that its charter empowers it to transact
the business by these resolutions defined, and that no limitation has been imposed upon such powers by
the By-Laws or otherwise.

FOURTH: That Lehman Brothers Incorporated may rely upon any certification given in accordance
with these resolutions, as continuing fully effective unless and until Lehman Brothers Incorporated shall
receive due written notice of a change in or the rescission of the authority so evidenced, and the dispatch or
receipt of any other form of notice shall not constitute a waiver of this provision, nor shall the fact that any

person hereby empowered ceases to be an officer of the Corporation or becomes an officer under some other
title, in any way affects the powers hereby conferred. The failure to supply any specimen signature shall not
invalidate any transaction if the transaction is in accordance with authority actually granted.

FIFTH: That in the event of any change in the office or powers of persons hereby empowered, the
Secretary shall certify such changes to Lehman Brothers Incorporated in writing in the manner hereinabove
provided, which notification, when received, shall be adequate both to terminate the powers of the persons
theretofore authorized, and to empower the persons thereby substituted.

SIXTH: That the foregoing resolutions and the certificates actually furnished to Lehman Brothers
Incorporated by the Secretary of the Corporation pursuant thereto, be and they hereby are made irrevocable
until written notice of the revocation thereof shall have been received by Lehman Brothers Incorporated.

Lehman Brothers
Incorporated

*One Bush Street
San Francisco, California 94102*

We are pleased to welcome you as a customer of Lehman
Brothers Incorporated.

To facilitate the processing of your account, under the
rules of the New York Stock Exchange and other regulatory authorities,
it is necessary to have the enclosed forms signed by you.

Please complete and return these forms to us in the stamped,
addressed envelope which is enclosed for your convenience.

Thank you for your kind cooperation in this matter.

Very truly yours,

LEHMAN BROTHERS INCORPORATED

Wallace R. Hagglund
Wallace R. Hagglund
Sales Manager

WRH:jl

P. S. We also need an excerpt from your corporate
charter showing power to purchase securities.

Secretary to Bruce Potter

LS 002519

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accounts, with Lehman Brothers Incorporated for the purpose of purchasing, investing in, or otherwise
acquiring, selling, possessing, transferring, exchanging, or otherwise disposing of, or turning to account of, or
realizing upon, and generally dealing in and with any and all forms of securities including, but not by way
of limitation, shares, stocks, bonds, debentures, notes, scrip, participation certificates, rights to subscribe,
option warrants, certificates of deposit, mortgages, choses in action, evidences of indebtedness, commercial
paper, certificates of indebtedness and certificates of interest of any and every kind and nature whatsoever,
secured or unsecured, whether represented by trust, participating and/or other certificates or otherwise;
but such authorization shall not include the opening of marginal accounts or the making of short sales.

The fullest authority at all times with respect to any such commitment or with respect to any transac-
tion deemed by any of the said officers and/or agents to be proper in connection therewith is hereby con-
ferred, including authority (without limiting the generality of the foregoing) to give written or oral instruc-
tions to Lehman Brothers Incorporated with respect to said transactions; to bind and obligate the Corpora-
tion to and for the carrying out of any contract, arrangement, or transaction, which shall be entered into by
any such officer and/or agent for and on behalf of the Corporation with or through Lehman Brothers Incor-
porated; to pay in cash or by checks and/or drafts drawn upon the funds of the Corporation such sums
as may be necessary in connection with any of the said accounts; to deliver securities to, and deposit funds
with, Lehman Brothers Incorporated; to order the transfer or delivery of securities to any other person
whatsoever, and/or to order the transfer of record of any securities to any name selected by any of the said
officers or agents; to affix the corporate seal to any documents or agreements, or otherwise; to endorse any
securities in order to pass title thereto; to direct the sale or exercise of any rights with respect to any securi-
ties; to sign for the Corporation all releases, powers of attorney and/or other documents in connection with
any such account, and to agree to any terms or conditions to control any such account; to direct Lehman
Brothers Incorporated to surrender any securities to the proper agent or party for the purpose of effecting
any exchange or conversion, or for the purpose of deposit with any protective or similar committee, or other-
wise; to accept delivery of any securities; to appoint any other person or persons to do any and all things
which any of the said officers and/or agents is hereby empowered to do, and generally to do and take all
action necessary in connection with the account, or considered desirable by such officer and/or agent with
respect thereto.

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opinion of the general counsel of the Corporation, or other counsel satisfactory to Lehman Brothers Incor-
porated) that the Corporation is duly organized and existing, that its charter empowers it to transact
the business by these resolutions defined, and that no limitation has been imposed upon such powers by
the By-Laws or otherwise.

FOURTH: That Lehman Brothers Incorporated may rely upon any certification given in accordance
with these resolutions, as continuing fully effective unless and until Lehman Brothers Incorporated shall
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Thank you for your kind cooperation in this matter.

Very truly yours,

LEHMAN BROTHERS INCORPORATED

Wallace R. Hegglin
Wallace R. Hegglin
Sales Manager

WRH:jl

P. S. We also need an excerpt from your corporate
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Secretary to Bruce Potter

LS 002520

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The fullest authority at all times with respect to any such commitment or with respect to any transaction deemed by any of the said officers and/or agents to be proper in connection therewith is hereby conferred, including authority (without limiting the generality of the foregoing) to give written or oral instructions to Lehman Brothers Incorporated with respect to said transactions; to bind and obligate the Corporation to and for the carrying out of any contract, arrangement, or transaction, which shall be entered into by any such officer and/or agent for and on behalf of the Corporation with or through Lehman Brothers Incorporated; to pay in cash or by checks and/or drafts drawn upon the funds of the Corporation such sums as may be necessary in connection with any of the said accounts; to deliver securities to, and deposit funds with, Lehman Brothers Incorporated; to order the transfer or delivery of securities to any other person whatsoever, and/or to order the transfer of record of any securities to any name selected by any of the said officers or agents; to affix the corporate seal to any documents or agreements, or otherwise; to endorse any securities in order to pass title thereto; to direct the sale or exercise of any rights with respect to any securities; to sign for the Corporation all releases, powers of attorney and/or other documents in connection with any such account, and to agree to any terms or conditions to control any such account; to direct Lehman Brothers Incorporated to surrender any securities to the proper agent or party for the purpose of effecting any exchange or conversion, or for the purpose of deposit with any protective or similar committee, or otherwise; to accept delivery of any securities; to appoint any other person or persons to do any and all things which any of the said officers and/or agents is hereby empowered to do, and generally to do and take all action necessary in connection with the account, or considered desirable by such officer and/or agent with respect thereto.

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LEHMAN BROTHERS INCORPORATED

Wallace R. Hoggland
Wallace R. Hoggland
Sales Manager

WRR:11

P. 8. We also need an excerpt from your corporate charter showing power to purchase securities.

Secretary to Bruce Potter

New York Chicago Dallas Houston Los Angeles San Francisco

LS 002521

Office of the Secretary of State

PAGE 1

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF INCORPORATION OF "REGO COMPANY", FILED IN THIS OFFICE ON THE NINTH DAY OF NOVEMBER, A.D. 1976, AT 10 O'CLOCK A.M.



Edward J. Freel

Edward J. Freel, Secretary of State

LS 002522

0830921 8100

971257757

AUTHENTICATION:

DATE: 8588342

08-01-97

CERTIFICATE OF INCORPORATION

OF

RegO Company

* * * * *

1. The name of the corporation is

RegO Company

2. The address of its registered office in the State of Delaware is No. 100 West Tenth Street, in the City of Wilmington, County of New Castle. The name of its registered agent at such address is The Corporation Trust Company.

3. The nature of the business or purposes to be conducted or promoted is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

4. The total number of shares of stock which the corporation shall have authority to issue is one hundred (100) and the par value of each of such shares is Ten Dollars (\$10.00) amounting in the aggregate to One Thousand Dollars (\$1,000.00).

5. The name and mailing address of each incorporator is as follows:

<u>NAME</u>	<u>MAILING ADDRESS</u>
F. J. Obara, Jr.	100 West Tenth Street Wilmington, Delaware 19801
W. J. Reif	100 West Tenth Street Wilmington, Delaware 19801
R. P. Andrews	100 West Tenth Street Wilmington, Delaware 19801

LS 002523

6. The corporation is to have perpetual existence.

7. In furtherance and not in limitation of the powers conferred by statute, the board of directors is expressly authorized to make, alter or repeal the by-laws of the corporation.

8. Meetings of stockholders may be held within or without the State of Delaware, as the by-laws may provide. The books of the corporation may be kept (subject to any provision contained in the statutes) outside the State of Delaware at such place or places as may be designated from time to time by the board of directors or in the by-laws of the corporation. Elections of directors need not be by written ballot unless the by-laws of the corporation shall so provide.

9. The corporation reserves the right to amend, alter, change or repeal any provision contained in this certificate of incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

WE, THE UNDERSIGNED, being each of the incorporators hereinbefore named, for the purpose of forming a corporation pursuant to the General Corporation Law of the State of Delaware, do make this certificate, hereby declaring and certifying that this is our act and deed and the facts herein stated are true, and accordingly have hereunto set our hands this 24th day of September, 1976.


F. J. O'Brien, Jr.


W. J. Reif


R. F. Andrews

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LS 002524

Office of the Secretary of State

PAGE 1

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF AGREEMENT OF MERGER, WHICH MERGES:

"GOLCONDA CORPORATION", A IDAHO CORPORATION,

WITH AND INTO "REGO COMPANY" UNDER THE NAME OF "REGO COMPANY", A CORPORATION ORGANIZED AND EXISTING UNDER THE LAWS OF THE STATE OF DELAWARE, AS RECEIVED AND FILED IN THIS OFFICE THE SEVENTEENTH DAY OF JUNE, A.D. 1977, AT 11 O'CLOCK A.M.

LS 002525



A handwritten signature in cursive script, reading "Edward J. Freel".

Edward J. Freel, Secretary of State

AUTHENTICATION:

0830921 8100M

DATE: 8588513

971257757

08-01-97

AGREEMENT OF MERGER

AGREEMENT OF MERGER, dated this 15th day of March, 1977, pursuant to Section 252 of the General Corporation Law of the State of Delaware, between RegO Company, a Delaware corporation, and Golconda Corporation, an Idaho corporation.

WITNESSETH that:

WHEREAS, all of the constituent corporations desire to merge into a single corporation; and

WHEREAS, said RegO Company, a corporation organized under the laws of the State of Delaware, by its Certificate of Incorporation which was filed in the office of the Secretary of State of Delaware on November 9, 1976 and recorded in the office of the Recorder of Deeds for the County of New Castle on November 9, 1976, has an authorized capital stock consisting of one hundred (100) shares of common stock of the par value of Ten Dollars (\$10.00) each, of which stock one hundred (100) shares is now issued and outstanding and shall be cancelled upon the effective date of the merger contemplated hereby.

WHEREAS, said Golconda Corporation, a corporation organized under the laws of the State of Idaho by its Articles of Incorporation which was filed in the office of the Secretary of State of Idaho on January 18, 1927 and recorded in the office of the Recorder of Deeds for the County of Shoshone on January 14, 1927, has an authorized capital stock consisting of eight million five hundred thousand (8,500,000) shares of which seven million five hundred thousand (7,500,000) shares shall be common stock without par value and one million (1,000,000) shall be convertible preferred stock having a par value of \$1.00 per share, of which stock 380,902 shares of preferred and 2,774,392 shares of common are now issued and outstanding; and

WHEREAS, the registered office of said RegO Company in the State of Delaware is located at 100 West Tenth Street in the City of Wilmington, County of New Castle, and the name of its registered agent at such address is The Corporation Trust Company; and the registered office of Golconda Corporation in the State of Idaho is located at P.O. Box 469 in the City of Wallace, County of Shoshone, and the name of its registered agent at such address is Mr. Wray Featherstone;

NOW, THEREFORE, the corporations, parties to this agreement in consideration of the mutual covenants, agreements and provisions hereinafter contained do hereby prescribe the terms and conditions of said merger and mode of carrying the same into effect as follows:

FIRST: RegO Company hereby merges into itself Golconda Corporation and said Golconda Corporation shall be and hereby is merged into RegO Company, which shall be the surviving corporation.

SECOND: The Certificate of Incorporation of RegO Company, as amended herein, is set forth in its entirety and attached hereto as Appendix 1 and all the terms and provisions thereof are hereby incorporated in this Agreement and made a part hereof with the same force and effect as if herein set forth in full; and from and after the effective date of the merger and until further amended as provided by law said Appendix 1 separate and apart from this Agreement of Merger shall be, and may be separately certified as, the Certificate of Incorporation, as amended, of the surviving corporation.

THIRD: Each share of Common Stock and each share of Convertible Preferred Stock of the merged corporation which shall be outstanding on the effective date of this Agreement and all rights in respect thereof shall forthwith be changed and converted, respectively, into one share of Common Stock and one share of Convertible Preferred Stock of the surviving corporation without any further action by the shareholders thereof.

FOURTH: The terms and conditions of the merger are as follows:

(a) The bylaws of the surviving corporation as they shall exist on the effective date of this agreement shall be and remain the bylaws of the surviving corporation until the same shall be altered, amended or repealed as therein provided, except that such changes shall be made initially in order to delete inapplicable references to the state of incorporation, the corporate name, the address of the registered office and inapplicable dates.

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(b) The directors and officers of the surviving corporation shall continue in office until the next annual meeting of stockholders and until their successors shall have been elected and qualified.

(c) This merger shall become effective upon filing with the Secretary of State of Delaware. However, for all accounting purposes the effective date of the merger shall be as of the close of business on June 30, 1977.

(d) Upon the merger becoming effective, all the property, rights, privileges, franchises, patents, trademarks, licenses, registrations and other assets of every kind and description of the merged corporation shall be transferred to, vested in and devolve upon the surviving corporation without further act or deed and all property, rights, and every other interest of the surviving corporation and the merged corporation shall be as effectively the property of the surviving corporation as they were of the surviving corporation and the merged corporation, respectively. The merged corporation hereby agrees from time to time, as and when requested by the surviving corporation or by its successors or assigns, to execute and deliver or cause to be executed and delivered all such deeds and instruments and to take or cause to be taken such further or other action as the surviving corporation may deem necessary or desirable in order to vest in and confirm to the surviving corporation title to and possession of any property of the merged corporation acquired or to be acquired by reason of or as a result of the merger herein provided for and otherwise to carry out the intent and purposes hereof and the proper officers and directors of the merged corporation and the proper officers and directors of the surviving corporation are fully authorized in the name of the merged corporation or otherwise to take any and all such action.

FIFTH: Anything herein or elsewhere to the contrary notwithstanding this agreement may be terminated and abandoned by the board of directors of any constituent corporation at any time prior to the date of filing the agreement with the Secretary of State.

IN WITNESS WHEREOF, the parties to this agreement, pursuant to the approval and authority duly given by resolutions adopted by their respective boards of directors have caused these presents to be executed by the President and attested by the Secretary of each party hereto.

ATTEST:

By

ATTEST:

By

GOLCONDA CORPORATION

By

President

RegO Company

By

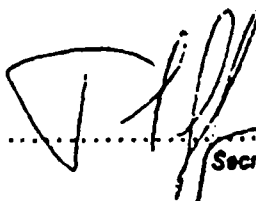
President

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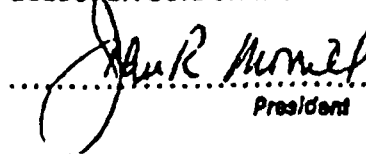
I, THOMAS L. SEIFERT Secretary of RegO Company, a corporation organized and existing under the laws of the State of Delaware, hereby certify, as such Secretary, that the Agreement of Merger to which this certificate is attached, after having been first duly signed on behalf of the said corporation and having been signed on behalf of GOLCONDA CORPORATION, a corporation of the State of Idaho, was duly submitted to the stockholders of said RegO Company at a special meeting of said stockholders called and held separately from the meeting of stockholders of any other corporation after at least twenty (20) days' notice by mail as provided by Section 252 and Section 251 of Title 8 of the Delaware Code of 1953 on the 14th day of March, 1977, for the purpose of considering and taking action upon the proposed Agreement of Merger; that 100 shares of stock of said Corporation were on said date issued and outstanding; having voting power, that the proposed Agreement of Merger was approved by the stockholders by an affirmative vote representing at least a majority of the outstanding stock of said corporation entitled to vote thereon, and that thereby the Agreement of Merger was at said meeting duly adopted as the act of the stockholders of said RegO Company and the duly adopted agreement of said corporation.

WITNESS my hand on this 15th day of March, 1977.

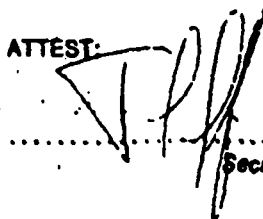

.....
Secretary

THE ABOVE AGREEMENT OF MERGER, having been executed on behalf of each corporate party thereto, and having been adopted separately by each corporate party thereto, in accordance with the provisions of the General Corporation Law of the State of Delaware, and the Business Corporation Act of the State of Idaho, the President of each corporate party thereto does now hereby execute the said Agreement of Merger and the Secretary of each corporate party thereto does now hereby attest the said Agreement of Merger, as the respective act, deed and agreement of each of said corporations, on this 15th day of March, 1977.

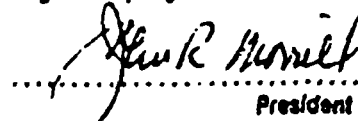
GOLCONDA CORPORATION


.....
President

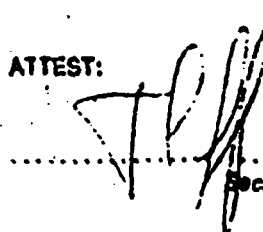
ATTEST:


.....
Secretary

RegO Company



.....
President

ATTEST:


.....
Secretary

I, THOMAS L. SEIFERT, Secretary of GOLCONDA CORPORATION, hereby certify, as such Secretary and under the seal of said corporation, that the Agreement of Merger to which this certificate is attached, after having been first duly approved by resolution of the Board of Directors of GOLCONDA CORPORATION and by resolution of the Board of Directors of Rego Company, and having been signed by the directors of GOLCONDA CORPORATION and by the directors of Rego Company, was duly submitted to the shareholders of said GOLCONDA CORPORATION, at a meeting of said shareholders duly called separately in the manner provided in Section 30-133 of the Idaho Code, 1947, for calling stockholders' meetings, and that at that meeting the Agreement of Merger was adopted by the affirmative vote of the holders of ~~Two Million Eight Hundred Four Thousand One Hundred Fifty~~ ^{Fifty-one} (2,895,151...), being the holders of at least two-thirds of the voting power of all shareholders.

WITNESS my hand and the seal of the said GOLCONDA CORPORATION on this 17th day of June, 1977.



Secretary

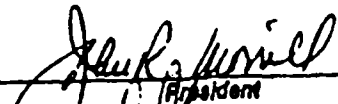
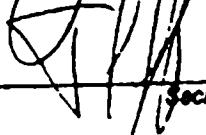
(SEAL)

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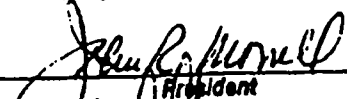
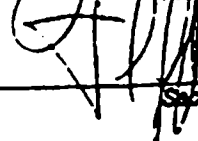
THIS AGREEMENT OF MERGER, having been approved by resolution of the Board of Directors of Golconda Corporation, and by resolution of the Board of Directors of RegO Company, and having been signed by the directors of Golconda Corporation, and signed by the directors of RegO Company, and thereafter having been approved by the shareholders of Golconda Corporation at a meeting separately called and held by the affirmative vote of the holders of at least two-thirds of the voting power of the shareholders, and having been approved by the shareholders of RegO Company, at a meeting separately called and held, by the affirmative vote of the holders of at least two-thirds of the voting power of the shareholders, the President and Secretary of RegO Company, and the President and Secretary of Golconda Corporation do now hereby execute this Agreement of Merger under the corporate seal of each of said corporations as the act and deed of each of said corporations, respectively, on this 17th day of June, 1977.

GOLCONDA CORPORATION

By:  President
 Secretary

(SEAL)

RegO Company

By:  President
 Secretary

(SEAL)

STATE OF ILLINOIS)
) 89:
COUNTY OF COOK)

On the 17th day of June, 1977, before me, a notary public of the State of Illinois, personally appeared John R. Morrill, known to me to be the President of Rago Company, one of the corporations which executed the Agreement of Merger to which this is attached, and acknowledged to me that such corporation executed the same.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

Carol D'Ascenzo
Notary Public

(SEAL)

STATE OF ILLINOIS)
) 88:
COUNTY OF COOK)

On the 17th day of June, 1977, before me, a notary public of the State of Illinois, personally appeared John R. Morrill, known to me to be the President of Golconda Corporation, one of the corporations which executed the Agreement of Merger to which this is attached, and acknowledged to me that such corporation executed the same.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

Carol D'Ascenzo
Notary Public

(SEAL)

**CERTIFICATE OF INCORPORATION
OF
RegO Company**

ARTICLE 1: The name of the corporation is RegO Company.

ARTICLE 2: The address of its registered office in the State of Delaware is 100 West Tenth Street in the City of Wilmington, County of New Castle. The name of its registered agent at such address is The Corporation Trust Company.

ARTICLE 3: The duration of the corporation is perpetual.

ARTICLE 4: The purpose or purposes for which the corporation is organized are:

To buy, sell, design, engineer, manufacture, create and repair special machines, machine parts, jigs, tools, dies, fixtures, precision parts, and any other product in any manner similar thereto.

To manufacture, assemble, buy, sell, hire, install, research and develop, distribute or dispose of electromechanical components and assemblies, guidance components and assemblies, electropneumatic components and assemblies, precise instrumentation components and assemblies and all kinds of goods, wares, merchandise, manufactures, commodities, machinery, tools, supplies and products, appliances, devices or equipment, of every kind and nature.

To design, develop, manufacture, buy or market various types of control devices, regulators, valves, welding devices, and any other devices of electrical and/or mechanical nature.

To design, develop, manufacture, buy or market food serving devices and facilities including, but not limited to, display cases, refrigerators, serving counters, warming devices, carburetors, dispensers of liquids or semi-solid foods, ice cream makers, coffee makers, utensils and other devices used in the preparation, storage, serving and clean up of food or other materials used or consumed by humans. Generally to engage in and conduct any form of manufacturing or mercantile enterprise.

To locate, buy, acquire, own, lease, sell, convey and deal in mines, and mineral lands of every kind and nature and description, also purchase, locate or otherwise acquire, own, enter or lease, sell and deal in mill sites, water rights and terminal facilities; to work, prospect, or develop mines and mineral lands of every nature or description, either for itself or for other companies, corporations or individuals upon such terms or for such remuneration as it shall deem fit and proper and to accept, take and hold mineral lands of every nature or description, either as an entirety or any interest in the same; to hold, purchase or otherwise acquire or be interested in, and to sell, assign, pledge or otherwise dispose of, shares of the capital stock, bonds, or other evidence of debt issued or created by any other corporation; whether foreign or domestic, and whether now or hereafter organized; and while the holder of any such shares of stock, to exercise all the rights and privileges of ownership, including the right to vote thereon to the same extent, as a natural person might or could do; to do everything that may be necessary or proper in the conduct of its business in the way of locating, prospecting, developing, acquiring, buying and selling mineral lands and mining claims of every kind, nature and description, and working such mines and the production of ores and minerals therefrom, and in the reducing such ores and minerals to the most merchantable value, and in doing the same, to contract, build, buy, sell, own and operate all necessary mills, smelters, machinery, roads, railroads, tramways, ditches, flumes, and such other property as shall be fit and necessary in carrying out the objects herein stated; to sell, buy and lease mines and mining property of all kinds and property of every kind and nature and description, useful and necessary in operating and maintaining the same, and in reducing the ores and in refining the minerals taken therefrom upon commission, whether such commission be paid in money or otherwise; to erect buildings, operate saw-mills and engage in trade of every kind both in stores and provisions, steam and other transportation, road building and engineering, freighting and carrying.

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To conduct a general mining, milling and smelting business.

To purchase, secure, use, own and enjoy any and all franchises useful and beneficial for the prosecution of the business of this corporation.

To exercise the right of eminent domain according to law and condemn and acquire rights of way for tunnels, shafts, hoisting works, dumps, cuts, ditches, canals, reservoirs, storage basins, dams, roads, railroads and tramways incident, necessary or convenient for the uses and purposes and objects of this corporation and do all such things incident to the general business of this corporation in the State of Delaware, in the other states and territories of the United States and elsewhere, that this corporation may desire or conclude to do business.

To buy and sell ores, bullion, metals, minerals and concentrates, and all other materials and supplies, and to reduce ores and minerals for pay.

To engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

To acquire, and pay for in cash, stock or bonds of this corporation or otherwise, the good will, rights, assets and property and to undertake or assume the whole or any part of the obligations or liabilities of any person, firm, association or corporation.

To acquire, hold, use, sell, assign, lease, grant licences in respect of, mortgage or otherwise dispose of letters patent of the United States or any foreign country, patent rights, licenses and privileges, inventions, improvements and processes, copyrights, trade-marks and trade names, relating to or useful in connection with any business of this corporation.

To acquire by purchase, subscription, or otherwise, and to receive, hold, own, guarantee, sell, assign, exchange, transfer, mortgage, pledge or otherwise dispose of or deal in and with any of the shares of the capital stock, or any voting trust certificates in respect of the shares of capital stock, scrip, warrants, rights, bonds, debentures, notes, trusts, receipts and other securities, obligations, choses in action and evidences of indebtedness or interest issued or created by any corporation, joint stock companies, syndicates, associations, firms, trusts or persons, public or private, or by the government of the United States of America, or by any foreign government, or by any state, territory, province, municipality or other political subdivision or by any governmental agency, and as owner thereof to possess and exercise all the rights, powers and privileges of ownership, including the right to execute consents and vote thereon, and to do any and all acts and things necessary or advisable for the preservation, protection, improvement and enhancement in value thereof.

To borrow or raise monies for any of the purposes of the corporation and, from time to time without limit as to amount, to draw, make, accept, endorse, execute and issue promissory notes, drafts, bills of exchange, warrants, bonds, debentures and other negotiable or non-negotiable instruments and evidences of indebtedness, and to secure the payment of any thereof, and of the interest thereon by mortgage upon or pledge, conveyance or assignment in trust of the whole or any part of the property of the corporation, whether at the time owned or thereafter acquired, and to sell, pledge or otherwise dispose of such bonds or other obligations of the corporation for its corporate purposes.

To purchase, receive, take by grant, gift, devise, bequest or otherwise, lease, or otherwise acquire, own, hold, improve, employ, use and otherwise deal in and with real or personal property, or any interest therein, wherever situated, and to sell, convey, lease, exchange, transfer or otherwise dispose of, or mortgage or pledge, all or any of the corporation's property and assets, or any interest therein, wherever situated.

To enter into partnership or joint venture agreements with other corporations, partnerships or individuals.

In general, to possess and exercise all the powers and privileges granted by the Delaware Corporation Law or by any other law of Delaware or by this document together with any powers incidental thereto, so far as such powers and privileges are necessary or convenient to the conduct, promotion or attainment of the business or purposes of the corporation.

The business and purposes specified in the foregoing clauses shall, except where otherwise expressed, be in nowise limited or restricted by reference to, or inference from, the terms of any other clause in this document, but the business and purposes specified in each of the foregoing clauses of this article shall be regarded as independent business and purposes.

ARTICLE 5: The total number of shares of stock which RegO shall have authority to issue is eight million, five hundred thousand (8,500,000) of which seven million, five hundred thousand (7,500,000) shares shall be common stock having a par value of \$.01 per share and one million (1,000,000) shall be convertible preferred stock having a par value of \$1.00 per share. All such shares shall be fully paid and non-assessable.

Each share of preferred stock of RegO shall be convertible into one and one-half shares of the common stock of RegO upon surrender to the corporation of the certificates of convertible preferred stock so to be converted, duly assigned in blank for transfer. No adjustment of dividends will be made upon the exercise of the conversion privilege.

RegO shall not be required to issue fractional shares of common stock in exchange for shares of its convertible preferred stock. If any fractional interest is due any holder of its preferred stock, the Board of Directors of RegO may at its election (i) issue non-voting scrip for such fractional interest in such form as the Board of Directors may determine, which scrip shall be exchangeable within a period of one year following the date of this issue, together with other scrip, for one or more full shares of common stock, or (ii) pay an amount in cash equal to the current market value of such fractional interest, calculated to the nearest cent, computed on the basis of the last reported sales price for such common shares on the Pacific Stock Exchange on the date of conversion.

The holders of the convertible preferred stock shall be entitled to receive, when and as declared, dividends at the rate of \$1.00 per share per annum payable quarterly. The dividends on the said preferred stock shall be cumulative and shall be payable before any dividends on the common shall be paid or set apart. If in any year, the dividends declared and paid upon the said preferred stock shall not amount to \$1.00 per share, the deficiency shall be payable before any dividends shall be thereafter paid upon or set apart for the common stock; provided, however, that whenever all cumulative dividends on the said preferred stock for all previous years shall have been declared and become payable, and the accrued quarterly installments for the current year shall have been declared, and the corporation shall have paid such cumulative dividends for previous years, and such accrued quarterly installments, or shall have set aside from its surplus or net profits a sum sufficient for the payment thereof, the Board of Directors may declare dividends on the common stock payable then or thereafter out of any remaining surplus or net profits.

The convertible preferred shares shall be preferred as to assets as well as dividends, as aforesaid, and upon the dissolution, liquidation or winding up of the corporation, the holders of said preferred shares shall be entitled to receive and be paid for each said preferred share, out of the assets of the corporation (whether capital or surplus) \$42.00 per share where such event is voluntary or \$37.50 per share where such event is involuntary, plus an amount equal to dividends accumulated and unpaid thereon, whether earned or declared or not, before any distribution of assets shall be made to the holders of common shares, but the holders of said preferred shares shall not be entitled to further participation in such distribution, and the holders of the common shares shall be entitled, to the exclusion of the holders of said preferred shares, to all assets of the corporation remaining after payment to the holders of the said preferred shares of the full preferential amount aforesaid.

Neither a consolidation nor merger of the corporation with or into any other corporation, nor a merger of any other corporation into the corporation, nor the purchase or redemption of all or any part of the outstanding shares of any class or classes of stock of the corporation, nor the sale or transfer of the property and business of the corporation as or substantially as an entirety, shall be construed to be a liquidation, dissolution, or winding up of the corporation within the meaning of the foregoing provisions.

The holders of the convertible preferred shares shall be entitled to one vote for each share held and shall have the power to vote cumulatively for the election of directors. The said preferred shares and the common shares shall vote together as one class.

The corporation, at its option to be exercised by its Board of Directors, may redeem in whole or in part the convertible preferred shares at any time, at \$37.50 per share, plus an amount equal to dividends accumulated and unpaid thereon, whether earned or declared or not. Payment of the redemption price of the said preferred shares shall be made in cash. Notice of such redemption, stating the redemption date, the redemption price and the place of payment thereof shall be given by mailing a copy of such notice at least thirty (30) days prior to the date fixed for redemption to the holders of record of the said preferred shares to be redeemed at their respective addresses as the same appear on the books of the corporation. If such notice of redemption shall have been duly given and if on or before the redemption date specified in such notice all funds necessary for such redemption shall have been set aside so as to be available therefor, then notwithstanding that any certificate for said preferred shares so called for redemption shall not have been surrendered for cancellation, the shares represented thereby shall no longer be deemed outstanding, the right to receive dividends thereon shall cease to accrue from and after the date of redemption so fixed and all rights with respect to such preferred shares so called for redemption not theretofore expired shall forthwith on such redemption date cease and terminate, except only the right of the holders thereof to receive the amount payable upon redemption thereof, but without interest.

Convertible preferred shares which are redeemed, purchased or otherwise acquired by the corporation shall be cancelled and shall not be reissued.

In case the corporation shall at any time or from time to time subdivide the outstanding shares of common stock into a greater number of shares, then with respect to each such subdivision the number of shares of common stock deliverable upon conversion of each share of convertible preferred stock hereby designated shall be increased in proportion to the increase resulting from such subdivision in the number of outstanding shares of common stock; and in case the corporation shall at any time, or from time to time, combine the outstanding shares of common stock into a smaller number of shares, then with respect to such combination the number of shares of common stock deliverable upon the conversion of each share of convertible preferred stock hereby designated shall be decreased in proportion to the decrease resulting from such combination in the number of outstanding shares of common stock.

In case, prior to the conversion or redemption of the convertible preferred stock, the corporation shall be recapitalized by reclassifying its outstanding common stock into shares with a different par value or shall thereafter reclassify any such shares in like manner, or the corporation or a successor corporation shall consolidate or merge with or convey all or substantially all its or any successor corporations property or assets to any other corporation or corporations, the holder of the convertible preferred stock shall thereafter have the right to convert pursuant to and on the terms and conditions and during the time specified herein, in lieu of the shares theretofore convertible, such shares of stock, securities or assets as may be issued or payable with respect to, or in exchange for, the number of shares theretofore receivable upon the conversion of the said preferred stock had such recapitalization, consolidation, merger or conveyance not taken place; and in any such event, the rights of the holder of said preferred shares to an adjustment in the number of common shares into which said preferred stock is convertible shall continue and be preserved in respect of any stock, securities or assets which the holder of said preferred stock is thus entitled.

In the event:

(A) The corporation shall take a record of the holders of its common stock for the purpose of entitling them to receive a dividend otherwise than in cash, or any other distribution in respect of the common stock (including cash), pursuant to, without limitation, any spin-off, split-off or distribution of the corporation's assets; or

(B) The corporation shall take a record of the holders of its common stock for the purpose of entitling them to subscribe for or purchase any shares of stock of any class or to receive any other rights; or

(C) Of any classification, reclassification, or other reorganization of the capital stock of the corporation, consolidation or merger of the corporation with or into another corporation or conveyance of all or substantially all of the assets of the corporation; or

(D) Of the voluntary or involuntary dissolution, liquidation or winding up of the corporation; then, and in any such case, the corporation shall mail to the holders of convertible preferred stock, at least twenty (20) days prior to such record date, a notice stating the date or expected date on which a record is to be taken for the purpose of such dividend, distribution or rights, or the date on which such classification, reclassification, reorganization, consolidation, merger, conveyance, dissolution, or winding up is to take place, as the case may be.

In case the corporation, at any time while convertible preferred stock shall remain issued and outstanding, shall sell all or substantially all its property or dissolve, liquidate or wind up its affairs, the holder of said preferred stock may thereafter receive upon conversion thereof in lieu of each share of common stock of the corporation which such holder would have been entitled to receive, the same kind and amount of any securities or assets as may be issuable, distributable, or payable upon any such sale, dissolution, liquidating or winding up with respect to each share of common stock of the Company.

ARTICLE 6: At all elections of directors of RegO, each common and convertible preferred stockholder shall be entitled to as many votes as shall equal the number of votes which (except for such provision as to cumulative voting) he would be entitled to cast for the election of directors with respect to his shares of stock multiplied by the number of directors to be elected, and he may cast all such votes for a single director or may distribute them among the number to be voted for, or for any two or more of them as he may see fit.

ARTICLE 7: No common or preferred stockholder of RegO shall by reason of his holding shares of any class have any preemptive or preferential right to purchase or subscribe to any shares of any class of the corporation, now or hereafter to be authorized, or any notes, debentures, bonds or other securities convertible into or carrying options or warrants to purchase shares of any class, now or hereafter to be authorized, whether or not the issuance of any such shares, or such notes, debentures, bonds or other securities, would adversely affect the dividend or voting rights of such stockholder, other than such rights, if any, as the Board of Directors, in its discretion from time to time may grant, and at such price as the Board of Directors in its discretion may fix; and the Board of Directors may issue shares of any class of RegO, or any notes, debentures, bonds or other securities convertible into or carrying options or warrants to purchase shares of any class, without offering any such shares of any class, either in whole or in part, to the existing shareholders of any class.

ARTICLE 8: In furtherance and not in limitation of the powers conferred by statute, the Board of Directors of RegO is expressly authorized:

To make, alter or repeal the by-laws of RegO except as otherwise provided for in the by-laws.

To authorize and cause to be executed mortgages and liens upon the real and personal property of RegO.

To set apart out of any of the funds of RegO available for dividends a reserve or reserves for any proper purpose and to abolish any such reserve in the manner in which it was created.

By a majority of the whole Board, to designate one or more committees, each committee to consist of two or more directors of RegO. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. Any such committee, to the extent provided in the resolution or in the by-laws of RegO, shall have and may exercise the powers of the Board of Directors in the management of the business and affairs of RegO, and may authorize the seal of the corporation to be affixed to all papers which may require it; provided, however, the by-laws may provide that in the absence or disqualification of any member of such committee or committees, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member.

When and as authorized by the affirmative vote of the holders of a majority of the stock issued and outstanding having voting power given at a stockholders' meeting duly called upon

such notice as is required by statute, or when authorized by the written consent of the holders of a majority of the voting stock issued and outstanding, to sell, lease or exchange all or substantially all of the property and assets of RegO, including its good will and its corporate franchises, upon such terms and conditions and for such consideration, which may consist in whole or in part of money or property including shares of stock in, and/or other securities of, any other corporation or corporations, as its Board of Directors shall deem expedient and for the best interests of RegO.

ARTICLE 9: Meetings of stockholders may be held within or without the State of Delaware as the by-laws may provide. The books of RegO may be kept (subject to any provision contained in the statutes) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the by-laws of the corporation. Elections of directors need not be by written ballot unless the by-laws of the corporation shall so provide.

ARTICLE 10: The corporation reserves the right to amend, alter, change or repeal any provision contained herein in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

ARTICLE 11: All outstanding options, agreements, warrants and other rights to purchase or otherwise receive or acquire shares of stock of Astro Controls, Inc. or Golconda Corporation shall be deemed options, agreements, warrants, or other rights, as the case may be, to purchase or otherwise receive or acquire under the same circumstances a number of shares of the common or convertible preferred stock of RegO at the applicable exchange ratio.

ARTICLE 12: The business of the corporation shall be managed by a Board of Directors elected by the stockholders at any annual or special meeting of stockholders. Directors of the corporation need not be stockholders. The number of such directors shall be not less than seven (7) nor more than eleven (11). The exact number of directors shall be fixed by the by-laws of the corporation. Vacancies in the Board of Directors shall be filled by the remaining members of the Board and each person so elected shall be a director of the corporation until his successor shall have been elected.

ARTICLE 13: The name and mailing address of each incorporator is as follows:

<u>Name</u>	<u>Mailing Address</u>
F. J. Obar, Jr.	100 West Tenth Street Wilmington, Delaware 19801
W. J. Reif	100 West Tenth Street Wilmington, Delaware 19801
R. F. Andrews	100 West Tenth Street Wilmington, Delaware 19801

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WE, THE UNDERSIGNED, being each of the incorporators hereinbefore named, for the purpose of forming a corporation pursuant to the General Corporation Law of Delaware, do make this certificate, hereby declaring and certifying that this is our act and deed and the facts herein stated are true, and accordingly have hereunto set our hands this 24th day of September, 1976.

/s/ F. J. Obara, Jr. (SEAL)

/s/ W. J. Reif (SEAL)

/s/ R. F. Andrews (SEAL)

State of Delaware
Office of the Secretary of State PAGE 1

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF AMENDMENT OF "REGO COMPANY", CHANGING ITS NAME FROM "REGO COMPANY" TO "THE REGO GROUP, INC.", FILED IN THIS OFFICE ON THE SEVENTH DAY OF FEBRUARY, A.D. 1978, AT 10 O'CLOCK A.M.




Edward J. Freel, Secretary of State

0830921 8100

971257757

AUTHENTICATION: 8588344

DATE: 08-01-97

LS 002539

CERTIFICATE OF AMENDMENT
OF
CERTIFICATE OF INCORPORATION

* * * * *

RegO Company, a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, DOES HEREBY CERTIFY.

FIRST: That the Board of Directors of said corporation, by the unanimous written consent of its members, filed with the minutes of the board, adopted a resolution proposing and declaring advisable the following amendment to the Certificate of Incorporation of said corporation:

RESOLVED, that the Certificate of Incorporation of RegO Company, be amended by changing the Article thereof numbered "1" so that, as amended, said Article shall be and read as follows:

"1. The name of the corporation is
The RegO Group, Inc."

SECOND: That in lieu of a meeting and vote of stockholders, the stockholders have given written consent to said amendment in accordance with the provisions of section 228 of The General Corporation Law of the State of Delaware and written notice of the adoption of the amendment has been given as provided in section 228 of The General Corporation Law of the State of Delaware to every stockholder entitled to such notice.

THIRD: That the aforesaid amendment was duly adopted in accordance with the applicable provisions of Sections 242 and 228 of The General Corporation Law of the State of Delaware.


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LS 002540

IN WITNESS WHEREOF, said RegO Company has caused
this certificate to be signed by R. C. Oluth its Vice-President
and attested by T. L. Selfert, its Secretary, this 2nd day of
February, 1978.

REGO COMPANY
CORPORATE SEAL
DELAWARE

RegO Company

By 
R. C. Oluth, Vice-President

ATTEST:

By 
T. L. Selfert, Secretary

LS 002541

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF CHANGE OF REGISTERED AGENT OF "THE REGO GROUP, INC.", FILED IN THIS OFFICE ON THE SEVENTEENTH DAY OF FEBRUARY, A.D. 1981, AT 9 O'CLOCK A.M.



A handwritten signature in cursive script, reading "Edward J. Freel", written over a horizontal line.

Edward J. Freel, Secretary of State

0830921 8100

971257757

AUTHENTICATION: 8588346

DATE: 08-01-97

LS 002542

**CERTIFICATE OF CHANGE OF LOCATION OF REGISTERED OFFICE
AND REGISTERED AGENT**

It is hereby certified that:

1. The name of the corporation (hereinafter called the "corporation") is

THE REGO GROUP, INC.

2. The registered office of the corporation within the State of Delaware is hereby changed to 306 South State Street, City of Dover 19901, County of Kent.

3. The registered agent of the corporation within the State of Delaware is hereby changed to United States Corporation Company, the business office of which is identical with the registered office of the corporation as hereby changed.

4. The corporation has authorized the changes hereinabove set forth by resolution of its Board of Directors.

Signed on January 30, 1981.



(Vice) President
R. C. Gluth

ATTEST:



(Assistant) Secretary
W. S. Rogowski

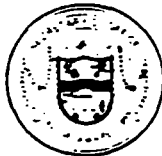
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LS 002543

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF AGREEMENT OF MERGER, WHICH MERGES:

"MR SUBSIDIARY, INC.", A DELAWARE CORPORATION,

WITH AND INTO "THE REGO GROUP, INC." UNDER THE NAME OF "THE REGO GROUP, INC.", A CORPORATION ORGANIZED AND EXISTING UNDER THE LAWS OF THE STATE OF DELAWARE, AS RECEIVED AND FILED IN THIS OFFICE THE TWENTY-FOURTH DAY OF JUNE, A.D. 1985, AT 9 O'CLOCK A.M.



A handwritten signature in cursive script, reading "Edward J. Freel".

Edward J. Freel, Secretary of State

0830921 8100M

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AUTHENTICATION: 8588345

DATE: 08-01-97

LS 002544

FILED 9AM

JUN 24 1985

AGREEMENT AND PLAN OF MERGER*Handwritten signature*
SECRETARY OF STATE

AGREEMENT AND PLAN OF MERGER dated as of April 11, 1985 by and among The RegO Group, Inc. (the "Company"), The Marmon Group, Inc. ("Marmon"), and MR Subsidiary, Inc. ("MR"), all corporations organized and existing under the laws of the State of Delaware. The Company and MR are hereinafter collectively referred to as the "Constituent Corporations."

WHEREAS, the Company is a corporation organized and existing under the laws of the State of Delaware, its Certificate of Incorporation, as thereafter amended, having been filed with the Secretary of State of Delaware on November 9, 1976;

WHEREAS, Marmon is a corporation organized and existing under the laws of the State of Delaware, its Certificate of Incorporation, as thereafter restated, having been filed with the Secretary of the State of Delaware on November 25, 1975;

WHEREAS, MR is a corporation organized and existing under the laws of the State of Delaware, its Certificate of Incorporation having been filed with the Secretary of the State of Delaware on March 25, 1985;

WHEREAS, the authorized capital stock of the Company consists of 8,500,000 shares of all classes of stock, of which (i) 7,500,000 shares are shares of common stock ("Common Stock"), par value \$.01 per share (of which 2,573,259 shares are currently issued and outstanding) and (ii) 1,000,000 shares are shares of preferred stock, par value \$1.00 per share ("Preferred Stock") (of which 333,601 shares are currently issued and outstanding);

WHEREAS, the authorized capital stock of MR consists of 1,000 shares of common stock, par value \$1.00 per share (of which, on the date of this Agreement, 1,000 shares are issued and outstanding);

WHEREAS, all of the shares of capital stock of MR are owned by Marmon;

WHEREAS, the holders of the Common Stock and the Preferred Stock of the Company and the holder of common stock of MR are entitled to vote on this Agreement; and

WHEREAS, the respective Boards of Directors of the Company, Marmon and MR have approved this Agreement, having determined that the proposed merger is in the best interests of their respective corporations and stockholders, and the Boards of Directors of the Company and MR have directed that this Agreement be submitted to their respective stockholders for adoption and approval in accordance with the General Corporation Law of Delaware;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements herein contained, the parties hereto agree as follows:

LS 002545

ARTICLE I

SECTION 1.1 In accordance with the provisions of the General Corporation Law of the State of Delaware, at the Effective Time (as hereinafter defined) the merger herein contemplated (the "Merger"), MR shall be merged with and into the Company, which shall be and is hereinafter sometimes referred to as the Surviving Corporation. The name of the Surviving Corporation from and after the Effective Time shall continue to be The RegO Group, Inc.

ARTICLE II

SECTION 2.1 The Merger shall become effective at 12:00 A.M. Eastern Daylight Time on July 1, 1985 if the Certificate of Merger referred to in Section 251(c) of the General Corporation Law of the State of Delaware shall have been filed in accordance with the laws of the State of Delaware prior to such date, and if said Certificate of Merger shall have been filed on or after said date then the Merger shall become effective on such date and at such time as the Certificate of Merger shall be so filed (in either such event, the effective date of the Merger being referred to herein as the "Effective Time").

SECTION 2.2 Except as herein specifically set forth, the identity, existence, purposes, powers, objects, franchises, privileges, rights and immunities of the Company shall continue in effect and unimpaired by the Merger, and the corporate franchises, existence and rights of MR shall be merged into the Company, and the Company as the Surviving Corporation shall be fully vested therewith. The separate existence and corporate organization of MR, except insofar as it may be continued by statute, shall cease at the Effective Time.

ARTICLE III

SECTION 3.1 At the Effective Time, the Certificate of Incorporation of the Company in effect at the Effective Time shall continue as the Certificate of Incorporation of the Surviving Corporation until thereafter amended, except that the third and fourth sentences of Article 12 shall be eliminated and the following substituted therefor:

"The number of directors which shall constitute the whole board shall be three persons."

The By-Laws of the Company in effect at the Effective Time shall be and become the By-Laws of the Surviving Corporation, until further amended, except that the first two sentences of Section 1 of Article III shall be eliminated and the following substituted therefor:

"Section 1. The number of directors which shall constitute the whole board shall be three persons."

SECTION 3.2 From and after the Effective Time, the members of the Board of Directors of the Surviving Corporation shall be as follows: Robert C. Gluth, George A. Jones and Robert A. Pritzker. Each such person shall hold office from and after the Effective Time until his successor is duly elected or appointed and qualified in the manner provided in the Certificate of Incorporation and the By-Laws of the Surviving

Corporation, or as otherwise provided by law.

SECTION 3.3 From and after the Effective Time, the officers of the Surviving Corporation shall be as follows:

Chairman of the Board and
President
Executive Vice President
Secretary and General Counsel
Vice President
Treasurer

Robert A. Pritzker
Robert C. Gluth
Walter S. Rogowski
Donald V. Ytterberg
Timothy W. Stonich

Each such person shall hold office from and after the Effective Time until his successor is duly elected or appointed and qualified in the manner provided in the Certificate of Incorporation and the By-laws of the Surviving Corporation, or as otherwise provided by law.

If at the Effective Time a vacancy shall exist in the Board of Directors or in any of the offices of the Surviving Corporation, such vacancy may thereafter be filled in the manner provided by law.

ARTICLE IV

SECTION 4.1 At the Effective Time, by virtue of the Merger and without any action on the part of the holder of any share of capital stock of the Constituent Corporations, the manner and basis of converting the shares of capital stock of each of the Constituent Corporations and the consideration to be received by the holders of the shares of capital stock of the Constituent Corporations are as follows:

(A) THE COMPANY.

At the Effective Time, each share of Common Stock issued and outstanding (except shares owned of record by (i) stockholders seeking appraisal rights pursuant to Section 262 of the Delaware General Corporation Law; (ii) Marmon or MR; and (iii) shares of treasury stock) shall be converted into the right to receive \$13.00 in cash, without interest, from the Surviving Corporation, but only upon surrender to the American National Bank and Trust Company of Chicago as the exchange and paying agent for the Merger (the "Exchange Agent") of the certificate representing such share in accordance with Section 4.2 hereof. At the Effective Time, each share of Preferred Stock issued and outstanding (except shares owned of record by (i) stockholders seeking appraisal rights pursuant to Section 262 of the Delaware General Corporation Law; (ii) Marmon or MR; and (iii) shares of treasury stock) shall be converted into the right to receive \$22.00 in cash, without interest, from the Exchange Agent acting on behalf of the Surviving Corporation, but only upon surrender to the Exchange Agent of the certificate representing such share in accordance with Section 4.3 hereof. At the Effective Time, each share of Common Stock and Preferred Stock held as treasury stock by the Company or owned by record by Marmon or MR shall cease to exist and all certificates representing such shares shall be cancelled and no cash or other property shall be issued in the Merger in respect thereof.

(B) MR.

At the Effective Time, each share of common stock of MR issued and outstanding immediately prior to the Effective Time shall be converted into and exchanged for one share of common stock of the Surviving Corporation so that the Surviving Corporation shall become a wholly-owned subsidiary of Marmon. Marmon, as the sole holder of shares of MR common stock outstanding immediately before the Effective Time, shall, as soon as possible after the Effective Time, surrender the MR stock certificate to the Surviving Corporation in exchange for a certificate representing an equal number of shares of common stock of the Surviving Corporation.

SECTION 4.2 Except as provided in Section 262 of the Delaware General Corporation Law, holders of Common Stock and Preferred Stock shall have no right to dissent in respect of the Merger. Shares of Common Stock and Preferred Stock owned by persons who are entitled to payment of the value of their shares as provided in Section 262 of the Delaware General Corporation Law shall not be converted pursuant to the Merger as provided in Section 4.1 above; provided, however, that shares of Common Stock or Preferred Stock outstanding at the Effective Time and held by stockholders who subsequently withdraw their demands for payment of the value of their shares as dissenting stockholders or fail to establish the right to pay the value of their shares as provided by applicable Delaware law, shall thereupon be deemed to have been converted into a right to receive cash in respect of Common Stock or Preferred Stock, as the case may be, in the same manner as provided for outstanding shares in Section 4.1(A) above.

SECTION 4.3 As soon as practicable after the Effective Time, Marmon or MR shall make available as a capital contribution to the Surviving Corporation, which shall, in turn, provide to the Exchange Agent sufficient cash to permit the Exchange Agent to make cash payments to holders of Common Stock and Preferred Stock pursuant to Section 4.1 or, in the case of dissenting stockholders after a determination of the value of their shares, Section 4.2 above, and shall cause the Exchange Agent to mail Notices of the Effective Time and Letters of Transmittal to holders of record of Common Stock or Preferred Stock for use in forwarding their share certificates to the Exchange Agent. Upon delivery to the Exchange Agent of a duly completed and executed Letter of Transmittal and certificates respecting Common Stock or Preferred Stock, the Exchange Agent shall cause payment to be made to such persons in accordance with the provisions of Section 4.4 below. With respect to Debentures submitted for conversion after the Effective Time, the Exchange Agent shall provide payment to holders of Debentures surrendered for conversion for a period of 180 days subsequent to the Effective Time and, thereafter, the Exchange Agent shall provide to the Surviving Corporation all cash then remaining for the account of such holders, as well as holders of Common Stock and Preferred Stock not theretofore surrendered or in respect of which the fair value thereof has not been determined, and from and after such date the surrender of certificates, conversion of Debentures, and payment with regard to the fair value of shares of Common Stock and Preferred Stock shall be settled as between the Surviving Corporation and the persons entitled to payment in respect thereof.

SECTION 4.4 After the Effective Time, each holder (other than Marmon and, as to treasury shares, the Surviving Corporation) of a certificate representing outstanding shares of Common Stock and Preferred Stock (and any holder of Debentures surrendered for conversion pursuant to Section 4.3 below) shall be entitled to receive a check, in the amounts provided in Section 4.1 above, in exchange for and upon surrender of such

certificate or certificates to the Exchange Agent. If any payment for shares of Common Stock or Preferred Stock is to be made in a name other than that in which the certificate surrendered for exchange was registered on the stock transfer books of the Surviving Corporation at the Effective Time, it shall be a condition of such exchange that the certificate so surrendered shall be properly endorsed or otherwise in proper form for transfer and that the person requesting such payment shall either (a) pay to the Surviving Corporation any transfer or other taxes required by reason of payment to a person other than the registered holder of the certificate surrendered, or (b) establish to the satisfaction of the Surviving Corporation that such tax has been paid or is not payable. On and after the Effective Time, no transfer of Common Stock or Preferred Stock outstanding prior to the Effective Time shall be made on the stock transfer books of the Surviving Corporation. Interest shall not accrue after the Effective Time on the amount payable to a holder of Common Stock or Preferred Stock (or any holder of the Company's 7% Subordinated Convertible Debentures due January 1, 1990 (the "Debentures") surrendered for conversion).

SECTION 4.5 Each holder of outstanding Debentures shall, prior to the date of redemption or maturity thereof, have the right to elect to convert such Debentures in accordance with the Indenture dated as of January 1, 1970 pursuant to which such Debentures were issued (the "Indenture"), subject to the anti-dilution and other similar provisions of said Indenture, by surrender of the Debentures (or any portion thereof in an integral of \$1,000 or multiples thereof) to the Surviving Corporation and, upon such surrender, such holder shall be entitled to receive cash in lieu of the number of shares of Common Stock into which such Debentures would have been convertible in the absence of the Merger, plus cash payable in lieu of fractional shares, equal to \$13.00 times the number of shares which would have been received in connection with such conversion. The manner of conversion and payment by the Surviving Corporation (including the amount payable in respect of fractional shares) shall in all instances be subject to the provisions of the Indenture and Section 4.4 above. Holders of Debentures shall not be entitled to any right of appraisal in connection with the Merger.

ARTICLE V

At the Effective Time, the rights, privileges, powers and franchises, public as well as private, and all the property, real, personal and mixed, of each of the Constituent Corporations, and all debts due to either of them on whatever account, including subscriptions to shares and all other choses in action, or belonging to either of them, shall be taken and deemed to be transferred to, and shall be vested in, the Surviving Corporation without further act or deed, and all property, rights, privileges, powers and franchises and all and every other interest shall be thereafter as effectively the property of the Surviving Corporation as they were of the Constituent Corporations, and the title to any real estate vested by deed or otherwise in either of the Constituent Corporations shall not revert or be in any way impaired by reason of the Merger. At the Effective Time, the Surviving Corporation shall thenceforth be liable for all debts, liabilities, obligations, duties and penalties of the Constituent Corporations and the same shall thenceforth attach to the Surviving Corporation and may be enforced against it to the same extent as if said debts, liabilities, obligations, duties and penalties had been incurred or contracted by it. No liability or obligation due or to become due at the Effective Time, or any claim or demand for any cause then existing against either of the Constituent Corporations or any stockholder, officer or director thereof, shall be released or impaired by the Merger and all rights of creditors, and all liens upon any property of either of the Constituent Corporations shall be preserved.

ARTICLE VI

The Company warrants and represents to Marmon and MR with respect to the Company that:

SECTION 6.1 Organization and Standing

The Company is a corporation existing in good standing under the laws of the State of Delaware, has the corporate power and authority to carry on the business presently being conducted by it, and has the power to own its properties. The Company has all requisite corporate power and authority to perform its obligations hereunder and to consummate the Merger.

SECTION 6.2 Capitalization

The Company's capital stock is as set forth in the preamble to this Agreement.

SECTION 6.3 Options, Warrants, Rights

At the date hereof, there are no outstanding options, warrants or rights of any character obligating the Company to issue any shares of capital stock or any securities convertible into or evidencing the right to purchase such capital stock, except for such rights of holders of (i) Preferred Stock to convert each share thereof into 1-1/2 shares of Common Stock and (ii) holders of Debentures to convert each \$1,000 in principal amount thereof into 93.72 shares of Common Stock, subject in each case to adjustment pursuant to applicable anti-dilution provisions.

SECTION 6.4 Legal and Administrative Proceedings

To the Company's knowledge, there is no suit, action, or legal, administrative, arbitration, or other proceeding or governmental investigation, or any change in zoning or building ordinances affecting real property interests pending or, to the Company's knowledge, threatened against the business, property or assets of the Company, or which might materially adversely affect the financial condition or operations or the property and assets or the conduct of the business of the Company, or which seeks to restrain, enjoin or prohibit the Merger.

SECTION 6.5 Information Provided

The Company has furnished Marmon and MR with a copy of its Form 10-K Report for the fiscal year ended December 31, 1984. No representation or warranty by the Company in this Agreement, nor any statement included in the Form 10-K Report or certificate furnished or to be furnished by or on behalf of the Company pursuant to this Agreement, nor any information and data provided by the Company contained in the definitive information statement and 1984 annual report ("Information Statement") to be mailed to stockholders of the Company for the annual meeting of stockholders to be held to consider the Merger ("Stockholders' Meeting") or in the Transaction Statement on Schedule 13E-3, or in connection with the actions contemplated hereby, contains or shall contain, at the time made, any untrue statement of a material fact or omits or shall omit to state a material fact necessary to make the statements contained therein not misleading.

The Company agrees to indemnify and hold harmless Marmon and MR, their current and former officers and directors and any persons who are affiliates of Marmon and MR, from and against any and all liabilities to which such persons may become liable by reason of any inaccuracies or omissions contained in the Information Statement or in the Transaction Statement, other than with respect to information furnished by Marmon or MR to the Company for use therein.

SECTION 6.6 Financial Statements

The Company has delivered to Marmon and MR copies of the Company's audited consolidated financial statements for the fiscal years ending December 31, 1983 and 1984. These financial statements are true and complete in all material respects, have been prepared in accordance with generally accepted accounting principles consistently followed throughout the periods covered by such statements and, at the dates of and for the periods covered thereby, present fairly the consolidated financial position and results of operations of the Company.

Except as and to the extent reflected in the financial statements of the Company as of December 31, 1983 and 1984, and the notes thereto, the Company did not have as of such dates any material liability or obligation (absolute, contingent or otherwise) of a nature customarily reflected therein or in the notes thereto. The Company has not incurred any material liability or obligation (absolute, contingent or otherwise) since December 31, 1984 other than in the ordinary course of business or in connection with the transactions contemplated hereby.

SECTION 6.7 No Material Adverse Change

Except as otherwise contemplated herein, since December 31, 1984, there has been no material adverse change in the assets, properties, business or financial condition of the Company taken as a whole. Except for events and conditions relating to business in general, there is no event or condition of any character pertaining to such assets, properties, business or financial condition that, to the Company's knowledge or belief, may reasonably be expected to materially adversely affect such assets, properties, business or financial condition of the Company.

SECTION 6.8 Authority Relative to this Agreement

The execution, delivery and performance of this Agreement by the Company and consummation of the transactions contemplated hereby will have been duly authorized by the Effective Time by all necessary corporate action; will not violate the Certificate of Incorporation or By-laws of the Company; will not violate any provision of law applicable to the Company; and will not conflict with, or result in the breach or termination of any provision of, or constitute a default under, or result in the creation of any lien, charge or encumbrance upon any of the properties, assets, or business of the Company pursuant to, any material indenture, mortgage, deed of trust, lease, contract or other instrument or agreement or any order, judgment, award or decree, to which the Company is subject or by which any of its assets or properties may be bound. To the best knowledge of the Company, the execution, delivery and performance of this Agreement by the Company and consummation of the transactions contemplated hereby, as related to the Company, do not require the consent or approval of any person or public authority not heretofore obtained, other than as specified herein or as previously disclosed in writing to Marmon

and MR prior to the execution of this Agreement. Subject to approval of the Merger by the stockholders of the Company as provided herein, this Agreement constitutes the valid and binding obligation of the Company.

ARTICLE VII

Marmon and MR jointly and severally represent and warrant to the Company as follows:

SECTION 7.1 Organization and Standing

Each of Marmon and MR is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to enter into and perform its obligations hereunder and to consummate the Merger.

SECTION 7.2 Capitalization, Stock Ownership, Options, Warrants, Rights

The capital stock of MR is as set forth in the preamble to this Agreement.

SECTION 7.3 Accuracy of Information

Marmon and MR will furnish all such information as may be required under the Securities Exchange Act of 1934, as amended, in order to enable the Company to comply in all material respects with said Act in connection with the Information Statement and the Transaction Statement on Schedule 13E-3. No representation or warranty by Marmon or MR in this Agreement, nor any statement or certificate furnished or to be furnished by or on behalf of Marmon or MR pursuant to this Agreement, nor any certificate delivered to the Company pursuant to this Agreement, nor any information and data provided by Marmon or MR or to be provided for use in the Information Statement, in the Transaction Statement on Schedule 13E-3, or in connection with the actions contemplated hereby, contains or shall contain, at the time made, any untrue statement of a material fact or omits or shall omit a material fact necessary to make the statements contained therein not misleading.

Marmon will indemnify and hold harmless the Company, its current and former officers and directors and any persons which control the Company, from and against any and all liabilities to which such persons may become liable by reason of any inaccuracies or omissions contained in any information furnished by Marmon or MR to the Company for use in the Information Statement or any amendment or supplement thereto or furnished by Marmon or MR for use in the Transaction Statement on Schedule 13E-3 or any amendment thereto.

SECTION 7.4 Authority Relative to this Agreement

The execution, delivery and performance of this Agreement by Marmon and MR and consummation of the transactions contemplated hereby will have been duly authorized by the Effective Time by all necessary corporate action; will not violate the Certificate of Incorporation or By-laws of Marmon or MR; will not violate any provision of law applicable to Marmon or MR; and will not conflict with, or result in the breach or termination of any provision of, or constitute a default under, or result in the creation of any lien, charge or encumbrance upon any of the properties, assets, or business of

Marmon or MR pursuant to, any material indenture, mortgage, deed of trust, lease, contract or other instrument or agreement or any order, judgment, award or decree, to which Marmon or MR is subject or by which any assets or properties of Marmon or MR may be bound. To the best knowledge of Marmon and MR, the execution, delivery and performance of this Agreement by Marmon and MR and consummation of the transactions contemplated hereby, as related to Marmon and MR, do not require the consent or approval of any person or public authority not heretofore obtained, other than as specified herein or previously disclosed in writing to the Company prior to the execution of this Agreement. This Agreement constitutes the valid and binding obligation of Marmon and MR.

ARTICLE VIII

The Company covenants as follows:

SECTION 8.1 The Company shall duly call a meeting of its stockholders for the purpose of voting on this Agreement and, in connection therewith, it shall prepare and file with the Securities and Exchange Commission the required Information Statement and Transaction Statement on Schedule 13E-3 with respect thereto and shall use its best efforts to obtain clearance by the Securities and Exchange Commission of the mailing of such Information Statement to its stockholders. It agrees to use its best efforts to obtain the necessary adoption of this Agreement by its stockholders.

SECTION 8.2 The Company will conduct its business only in the ordinary course and will not, without the prior written consent of Marmon, sell, purchase or grant rights with respect to any shares of its stock, amend its Certificate of Incorporation or By-Laws, make any distribution in respect of any of its stock (except for its regular quarterly dividend of \$.25 per share to holders of Preferred Stock payable in February and May, 1985), make total commitments or expenditures for capital items in excess of \$100,000, incur any indebtedness for borrowed money other than in the ordinary course of business, grant any general or uniform increase in the rates of pay of its employees other than as required by contract or regularly scheduled increases at times and in amounts consistent with past compensation practice, undertake any material transaction (or group of transactions, the cumulative effect of which would be material).

SECTION 8.3 The Company shall preserve and maintain, so far as practicable, its assets and property in the same condition as such assets and property are on the date hereof; provided, however, that the Company shall be permitted to dispose of its property located at 4201 W. Peterson Avenue, Chicago, Illinois prior to the Effective Time, on such terms and for such consideration as the Company shall deem appropriate.

SECTION 8.4 The Company shall use its best efforts to preserve its business organization intact, to keep available its present key officers and employees, and to preserve the present relationship with its customers and suppliers and others having business relationships with it.

ARTICLE IX

SECTION 9.1 The Closing ("Closing") under this Agreement shall be held at the offices of Messrs. Friedman & Koven, 208 S. LaSalle Street, Chicago, Illinois, at 10:00 A.M., Chicago Time, or at such other place and time as shall be mutually agreeable to the parties, on the date of the Effective Time as above defined.

SECTION 9.2 At the Closing, the Company shall deliver, or cause to be delivered, to Marmon and MR a certificate of the Company, signed by its Chairman or President, which shall confirm the compliance by the Company in all material respects with its covenants and agreements contained in this Agreement, the accuracy in all material respects of the representations and warranties made by the Company in this Agreement at and as of the Effective Time, as if made at such time and as contemplated by this Agreement, and the absence of any change in the assets, properties, business or financial condition of the Company since December 31, 1984, which could have a materially adverse effect on the value of its business (other than a change referred to in Section 8.3 above or the Information Statement).

SECTION 9.3 At the Closing, Marmon and MR shall deliver, or cause to be delivered, to the Company a certificate of each of Marmon and MR, signed by each of their Chairman or President, which shall confirm the compliance in all material respects with its covenants and agreements contained in this Agreement, the accuracy in all material respects of the representations and warranties made by it in this Agreement at and as of the Effective Time, as if made at such time and as contemplated by this Agreement.

ARTICLE X

SECTION 10.1 Conditions to the Obligations of the Company

The obligations of the Company under this Agreement are, at its option, subject to the conditions that:

(a) The representations and warranties of Marmon and MR herein contained shall have been true in all material respects when made and, in addition, shall be true in all material respects on and at the Effective Time with the same force and effect as though made on and at the Effective Time, except as affected by transactions contemplated hereby and except for any activities or transactions after the date of this Agreement which are made in the ordinary course of business and are not prohibited by this Agreement.

(b) All consents, waivers, approvals, authorizations or orders required for the authorization, execution and delivery of this Agreement by Marmon and MR and the consummation by them of the transactions contemplated hereby shall have been obtained by Marmon and MR.

(c) Each of Marmon and MR shall have performed in all material respects all obligations and agreements and complied with all covenants and conditions contained in this Agreement to be performed and complied with by them at or prior to the Effective Time.

(d) The information and data concerning Marmon and MR set forth in the Transaction Statement on Schedule 13E-3 and the Information Statement shall be true and complete, not contain an untrue statement of a material fact and not omit to state a material fact required to be stated therein or necessary in order to make the statements therein not misleading.

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(e) Not more than ten nor less than three days preceding the date on which the Information Statement is mailed to stockholders of the Company, the Company shall have received an updated report from Duff and Phelps, Inc., the financial analyst and consultant to the Company, substantially confirming its opinion dated April 8, 1985 to the effect that the cash consideration to be paid to holders of the Common Stock and Preferred Stock pursuant to this Agreement is fair to such stockholders of the Company from a financial point of view, and on the date of the Stockholders' Meeting and at the Effective Time, such opinion shall not have been withdrawn in a manner unsatisfactory to the Company.

(f) At the Closing, Marmon and MR shall have made available to the Exchange Agent funds in an amount sufficient to provide for the payments required to be made pursuant to Article IV hereof and to stockholders of the Company pursuant to their exercise of appraisal rights.

(g) No person shall have made an offer to merge or consolidate with, or to purchase all or substantially all of the outstanding shares of Common Stock and Preferred Stock or substantially all of the assets of the Company, which offer, in the opinion of the Board of Directors of the Company, is a bona fide offer which is likely to result in stockholders of the Company receiving greater consideration for their shares than would be received in connection with the Merger.

SECTION 10.2 Conditions to the Obligations of Marmon and MR

The obligations of Marmon and MR under this Agreement are, at their option, subject to the conditions that:

(a) The representations and warranties of the Company herein contained shall have been true in all material respects when made and, in addition, shall be true in all material respects on and at the Effective Time with the same force and effect as though made on and at the Effective Time, except as affected by the transactions contemplated hereby and except for any activities or transactions after the date of this Agreement which are made in the ordinary course of business and are not prohibited by this Agreement.

(b) There shall have been no change after December 31, 1984, in the assets, properties, business or financial condition of the Company (other than the disposition referred to in Section 8.03 hereof) which could have a materially adverse effect on the value of the business of the Company.

(c) All consents, waivers, approvals, authorizations or orders required for the authorization, execution and delivery of this Agreement by the Company and the consummation by it of the transactions contemplated hereby shall have been obtained by the Company.

(d) The Company shall have performed in all material respects all obligations and agreements and complied with all covenants and conditions contained in this Agreement to be performed and complied with prior to the Effective Time.

(e) The information and data concerning the Company set forth in the Transaction Statement on Schedule 13E-3 and the Information Statement shall be

true and complete, not contain an untrue statement of a material fact and not omit to state a material fact required to be stated therein or necessary in order to make the statements therein not misleading.

SECTION 10.3 Mutual Conditions Applicable

The obligations of the parties hereto under this Agreement are subject to the following terms and conditions:

(a) All governmental approvals and actions which may be required in connection with the Merger shall have been obtained at or prior to the Effective Time.

(b) This Agreement shall have been adopted by the affirmative vote of stockholders of the Company as required by the Delaware General Corporation Law. This Agreement shall also have been adopted by the affirmative vote of the sole stockholder of MR.

(c) The consummation of the Merger shall not have been restrained, enjoined or prohibited by any court or governmental authority of competent jurisdiction. No material litigation or administrative proceeding shall be pending as of the Effective Time seeking to restrain, enjoin or prohibit the consummation of this Agreement or the Merger.

(d) The Effective Time of the Merger shall be no later than December 31, 1985.

ARTICLE XI

SECTION 11.1 This Agreement may be terminated and the Merger abandoned at any time not later than the Effective Time (whether or not at the time of such termination or abandonment this Agreement has been adopted by the stockholders of each of the Constituent Corporations):

(a) By the mutual consent of the Boards of Directors of the parties hereto; or

(b) By action of the Board of Directors of the Company in the event of (i) any material breach of a representation or warranty provided herein by Marmon or MR, which breach is not promptly cured or (ii) in the event that the Company receives an offer of the third party to merge with or consolidate into the Company, or to purchase all or substantially all of the stock of or assets of the Company, which offer, in the opinion of the Board of Directors of the Company, is a bona fide offer which is likely to result in stockholders of the Company receiving greater consideration for their shares than would be received in connection with the Merger (which occurrence shall obligate the Company to terminate this Agreement); or

(c) By action of the Boards of Directors of Marmon and MR in the event of any material breach of a representation or warranty provided herein by the Company, which breach is not promptly cured.

The Board of Directors of a party terminating this Agreement and abandoning the Merger pursuant to Section 11.1 hereof shall give prompt written notice thereof to the other party. Upon such notice this Agreement shall be terminated without further obligation or liability upon any party in favor of the other, and no further proceedings shall be taken in connection therewith.

If any of the parties has the right to terminate this Agreement pursuant to the provisions of Article XI hereof (other than mandatory termination pursuant to Section 11.1(b)(ii) above), it may, through action of its Board of Directors, waive such right of termination, either before or after this Agreement has been adopted by the stockholders of the Company, by notice in writing to the other parties.

SECTION 11.2 At any time prior to the Effective Time of the Merger, the parties hereto may, by written agreement, (a) extend the time for the performance of any of the obligations or other acts of the parties hereto, (b) waive any inaccuracies in representations and warranties contained in this Agreement or in any document delivered pursuant hereto, (c) waive compliance with any of the covenants or agreements contained in this Agreement, or (d) make any other modification of this Agreement, subject to Section 251(d) of the General Corporation Law of Delaware, approved by their respective Boards of Directors. This Agreement shall not be altered or otherwise amended except pursuant to an instrument in writing executed and delivered on behalf of each of the parties hereto. Nothing in this paragraph shall be construed to limit the right of any party to terminate this Agreement as provided herein.

ARTICLE XII

SECTION 12.1 Each of the parties hereto shall take, or cause to be taken, all action, and do, or cause to be done, all things necessary, proper or advisable to consummate and make effective the Merger. Each will cooperate with the others; and each will use its best efforts to satisfy the conditions to the obligations of the other parties.

ARTICLE XIII

SECTION 13.1 In the event the Merger is terminated by any party or abandoned pursuant to Article XI, each party shall bear all reasonable costs and expenses incurred by it in connection with the transaction contemplated herein, including but not limited to legal, auditing and printing costs.

ARTICLE XIV

SECTION 14.1 All notices, requests, demands and other communications shall be in writing and shall be deemed duly given if delivered or mailed, postage prepaid:

(a) If to the Company:

The RegO Group, Inc.
39 South LaSalle Street
Chicago, Illinois 60603
Attention: Chairman

(b) If to Marmon or MR

The Marmon Group, Inc.
39 South LaSalle Street
Chicago, Illinois 60603
Attention: Chairman

ARTICLE XV

SECTION 15.1 The representations, warranties and covenants of the parties hereto shall be deemed to be conditions of the Merger and shall not survive the Effective Time; provided, however, that the indemnities of the Company, Marmon and MR provided in Sections 6.5 and 7.3 hereof, respectively, shall continue in effect for a period of two years from the Effective Time.

ARTICLE XVI

SECTION 16.1 This Agreement may be executed in any number of counterparts, each of which shall be original, but such counterparts together shall constitute but one and the same instrument.

ARTICLE XVII

SECTION 17.1 It is expressly agreed that this Agreement (except as herein otherwise stated or disclosed in writing to the other party or parties prior to the execution of this Agreement) embodies the entire agreement of the parties in relation to the subject matter hereof and that no understanding or agreement, oral or written, in relation thereto exists between the parties except as herein expressly set forth.

IN WITNESS WHEREOF, this Agreement and Plan of Merger has been signed by the Chairman of the Board, President or Vice President, and attested to by the Secretary or Assistant Secretary, duly authorized, of each of The RegO Group, Inc., The Marmon

THE REGO GROUP, INC.
(a Delaware corporation)

By:

Vice President

Secretary

By

Executive Vice President

Secretary

Byz

President

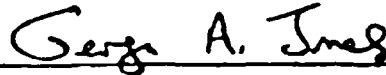
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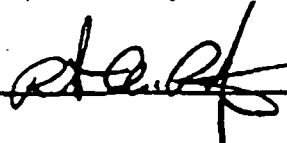
THE UNDERSIGNED, R. C. Gluth, Vice President of The RegO Group, Inc. who executed on behalf of said corporation the foregoing Agreement and Plan of Merger, of which this Certificate is made a part, hereby acknowledges, in the name of and on behalf of said corporation, the foregoing Agreement and Plan of Merger to be the corporate act of said corporation and further certifies that, to the best of his knowledge, information, and belief, the matters and facts set forth therein with respect to the approval thereof are true in all material respects, under the penalties of perjury.



THE UNDERSIGNED, George A. Jones, Exec. VP of The Marmon Group, Inc. who executed on behalf of said corporation the foregoing Agreement and Plan of Merger, of which this Certificate is made a part, hereby acknowledges, in the name of and on behalf of said corporation, the foregoing Agreement and Plan of Merger to be the corporate act of said corporation and further certifies that, to the best of his knowledge, information, and belief, the matters and facts set forth therein with respect to the approval thereof are true in all material respects, under the penalties of perjury.

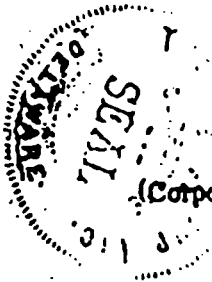


THE UNDERSIGNED, Robert A. Pritzker, President of MR Subeldiary, Inc. who executed on behalf of said corporation the foregoing Agreement and Plan of Merger, of which this Certificate is made a part, hereby acknowledges, in the name of and on behalf of said corporation, the foregoing Agreement and Plan of Merger to be the corporate act of said corporation and further certifies that, to the best of his knowledge, information, and belief, the matters and facts set forth therein with respect to the approval thereof are true in all material respects, under the penalties of perjury.



**THE REGO GROUP, INC.
Secretary's Certificate**

I, Walter S. Rogowski, Secretary of The RegO Group, Inc., a Delaware corporation ("RegO"), do hereby certify, in accordance with the provisions of the General Corporation Law of the State of Delaware, that the foregoing Agreement and Plan of Merger, having been duly authorized and approved by the Board of Directors of RegO and signed under its corporate seal by officers of RegO thereunto duly authorized, was duly adopted by the stockholders of RegO on the 13th day of June, 1985.



(Corporate Seal)

Secretary

**MR SUBSIDIARY, INC.
Secretary's Certificate**

I, Walter S. Rogowski, Secretary of MR Subsidiary, Inc., a Delaware corporation ("MR"), do hereby certify, in accordance with the provisions of the General Corporation Law of the State of Delaware, that the foregoing Agreement and Plan of Merger, having been duly authorized and approved by the Board of Directors of MR and signed under its corporate seal by officers of MR thereunto duly authorized, was duly adopted by the sole stockholder of MR on the 11th day of April, 1985.



Secretary

Certificate of Agreement of Merger of the "MR SUBSIDIARY, INC.",
merging with and into the "THE REGO GROUP, INC.",
under the name of "THE REGO GROUP, INC.",
as received and filed in this office the twenty-fourth day of June,
A.D. 1985, at 9 o'clock A.M.

LS 002562

COMMAND: DSP SCREEN TAX FILE NO: 2057845
CORP: STAT=M 020578-45 MR SUBSIDIARY, INC.
* * * * * TAX HISTORY

YEAR: INDEX:
SCREEN: TAX/
* * * * * PETITION/EXTENSION
DATES & STATUS

YEAR		TAXES	INTEREST	PENALTY	CHECK CHGS
1985	DUE	30.00			
	ADJUSTMENT				
	PAID	30.00			

FRANCHISE TAX BALANCE: 0.00

COMMAND: DSP SCREEN: FEF FILE NO: 9000013 REQ #: 851750313 INDEX:
AGENT: STAT=1 A90000-13 UNITED STATES CORPORATION COMPANY SCREEN: FEF/FEF
* * * * * DOCUMENT FILING CHARGES * * * * *

SEQ CORPORATION	DOC DESCRIPTION	FILING FEE	RCVNG/INDEX	MISCELLANEOUS	FRANCHISE TAX
01 0830921 THE REGO GROUP, INC.		20.00			
	0251C AGREEMENT OF MERGER (DELAWARE CORP		25.00		
02 0830921 THE REGO GROUP, INC.				30.00	
	6025C CERTIFICATE OF AGREEMENT OF MERGER				
03 2057845 MR SUBSIDIARY, INC.					
	0251C AGREEMENT OF MERGER (DELAWARE CORP				30.00

GENL CHGS:	105.00	GENL SVC BAL:	105.00
SPEC CHGS:	0.00	SPEC SVC BAL:	0.00

COMMAND: DSP SCREEN: FTP FILE NO: 2057845 YEAR: INDEX:
CORP: STAT=M 020578-45 MR SUBSIDIARY, INC. SCREEN: FTP/FT2
* * * * * FRANCHISE TAX PAYMENT HISTORY * * * * *

STATUS: PERM OPEN ACCOUNT LAST CHANGED 06/26/1985 BY SAP
P A Y M E N T S R E C E I V E D
SEQ TYPE CHECK # AMOUNT REF STATUS BATCH DATE FROM SKN
01 TRANSFER 30.00 06/26/1985 851750313

TOTAL PAYMENTS: 30.00 FRANCHISE TAX BALANCE: 0.00
COMMENTS:

10020

LS 002563

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF AMENDMENT OF "THE REGO GROUP, INC.", FILED IN THIS OFFICE ON THE TWENTIETH DAY OF JUNE, A.D. 1986, AT 9 O'CLOCK A.M.



A handwritten signature in cursive script, reading "Edward J. Freel".

Edward J. Freel, Secretary of State

0830921 8100

971257757

AUTHENTICATION: 8588347

DATE: 08-01-97

LS 002564

8601710145

CERTIFICATE OF AMENDMENT
OF
CERTIFICATE OF INCORPORATION
OF

FILED

JUN 20 1988

Michael H. Hille
SECRETARY OF STATE

THE REGO GROUP, INC.

Adopted in accordance with the provisions
of Section 242 of the General Corporation
Law of the State of Delaware

We, Vice President and
Secretary of The Rego Group, Inc. do hereby certify as follows:

FIRST: That the name of the corporation is The Rego Group,
Inc.

SECOND: That the Certificate of Incorporation of the
corporation was filed by the Secretary of State of Delaware on
the 9th day of November, 1976.

THIRD: That the Certificate of Incorporation of said
Corporation has been amended as follows:

The total number of shares of stock which the
corporation shall have authority to issue is one
thousand (1,000) shares, all of which are common.
The par value of each share is one cent (\$.01)
amounting in the aggregate to Ten Dollars (\$10).

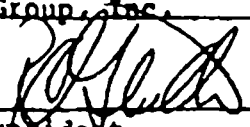
FOURTH: That such amendment(s) have been duly adopted in
accordance with provisions of the General Corporation Law of the
State of Delaware

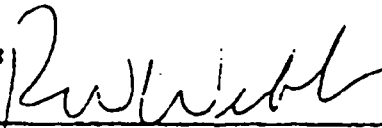
(a) by the unanimous written consent of the holders of
all outstanding shares entitled to vote.

0002

LS 002565

IN WITNESS WHEREOF, we have signed this certificate this
16th day of June, 1986.

By The Regu Group, Inc.

Vice President

ATTEST: 
Secretary

LS 002566

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF AMENDMENT OF "THE REGO GROUP, INC.", CHANGING ITS NAME FROM "THE REGO GROUP, INC." TO "GROUP R CO., INC.", FILED IN THIS OFFICE ON THE TWENTY-THIRD DAY OF DECEMBER, A.D. 1992, AT 9 O'CLOCK A.M.



A handwritten signature in cursive script, reading "Edward J. Freel".

Edward J. Freel, Secretary of State

0830921 8100

971257757

AUTHENTICATION: 8588348

DATE: 08-01-97

LS 002567

Golc - CDA dm - 1601

CERTIFICATE OF AMENDMENT OF
CERTIFICATE OF INCORPORATION
OF
THE REGO GROUP, INC.

The undersigned, R. C. Gluth, Vice President, and Robert W. Webb, Secretary, of THE REGO GROUP, INC., do hereby certify as follows:

FIRST: That the name of the Corporation is THE REGO GROUP, INC.

SECOND: That the Certificate of Incorporation was filed in the Office of the Secretary of State of Delaware on the 9th day of November, 1976.

THIRD: That the Certificate of Incorporation of said Corporation has been amended as follows:

That ARTICLE FIRST of the Certificate of Incorporation is hereby amended to read as follows:

"FIRST: The name of the corporation is:

GROUP R CO., INC."

FOURTH: That such amendment has been duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, the undersigned, being the Vice President and Secretary hereinabove named, for the purpose of amending the Certificate of Incorporation of the Corporation, pursuant to the General Corporation Law of the State of Delaware, do hereby certify the adoption of the amendment,

LS 002568

declaring that the facts herein stated are true, and accordingly have hereunto signed this Certificate this 18th day of December, 1992.

THE REGO GROUP, INC.



R. C. Gluth
Vice President



Robert W. Webb
Secretary

LS 002569

June 5, 1974

Mr. Ralph A. Lambiase
Director - Listings
The Pacific Coast Stock Exchange
881 Pine Street
San Francisco, California 94104

Dear Mr. Lambiase:

As a follow up to our recent telephone conversation relating to the number of shares of Golconda which would be outstanding upon completion of Cerro's tender offer, I am supplying the following information which is based on an approximation by Cerro of the number of shares they have acquired:

Common Stock Outstanding	2,785,595
Cerro's Ownership	2,328,266
Held by Public	457,329
No. of holders (approx.)	1,948
Preferred Stock Outstanding	383,157
Cerro's Ownership	253,400
Held by Public	129,757
No. of Holders (approx.)	709

Just as soon as we receive definitive figures reporting the actual number of shares of each class purchased by Cerro, I will update this information for you. I believe that the number of shares, both common and preferred, which will remain in the public's hands, will still be more than required to maintain our listing. I believe it is the intention of the Company to continue its listing.

Should you have any questions, please do not hesitate to call me.

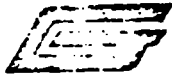
Sincerely,

J.M. Stogin

JMS:cs

cc: Mr. Gordon P. Smith

LS 002570



GOLCONDA CORPORATION
4801 WEST PETERSON AVENUE CHICAGO ILLINOIS 60648

RICHARD S. SLOMA
President
Chief Executive Officer

March 10, 1975

Mr. W. Featherstone
Golconda Mining Corporation
P.O. Box 469
Scott Building
Wallace, Idaho 83873

cc: D. A. Gardiner
G. P. Smith
J. M. Stogin ✓

Dear Wray:

This letter is occasioned by the recent organizational and reporting changes which call for a fresh review of all corporate activities and operations. It will take learning on my part because, as you know, I have not been involved with your operation heretofore.

I am aware that you have had some prior contact with Cerro management and I would appreciate it if you would please bring me up-to-date on major situations, particularly the status of disposition of the various share holdings. In that regard, it is my recollection that it was considered and discussed, at least, that the security and other holdings were to be transferred to Golvest. What was the decision on that, Wray?

In regard to the statement of February expenses in the amount of \$7,768.66, it would be appreciated if you could please forward copies of the complete supporting detail.

I have been advised that F. F. Schauder may visit with you soon to become familiar with the details of the operation. When I learn of the date, I will confirm with you to assure your presence.

I hope this letter inflicts minimum inconvenience for you, Wray, but with the departure of Gordon Smith and Don Adams from day-to-day operations, the coordinating task has fallen to me.

Look forward to your response and to seeing you soon.

Regards,

Richard S. Sloma
President & Chief
Executive Officer

LS 002571

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended September 30, 1976 Commission file number 1-848

GOLCONDA CORPORATION

(Exact name of registrant as specified in its charter)

IDAHO

(State or other jurisdiction of
incorporation or organization)

82-0122540

(I.R.S. Employer
Identification No.)

39 SOUTH LASALLE STREET, CHICAGO, ILLINOIS
(Address of principal executive offices)

60603
(Zip Code)

Registrant's telephone number, including area code (312) 372-9500

Common stock outstanding as of September 30, 1976:

2,777,627 shares without par value

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

LS 002591

Summarized Financial Information

GOLCONDA CORPORATION
CONSOLIDATED STATEMENT OF OPERATIONS
Three Months Ended September 30, 1976 and 1975
(In Thousands of Dollars Except Per Share Data)
(Unaudited)

	<u>1976</u>	<u>1975</u>
Net sales from manufacturing operations	\$ 6,054	\$ 4,969
Cost of goods sold	4,400	4,096
Gross profit from manufacturing operations	<u>1,654</u>	<u>873</u>
Selling, general and administrative expenses	1,247	1,259
Interest expense	149	163
Interest income	(151)	(131)
Other (income) expense, net	<u>(87)</u>	<u>49</u>
	<u>1,158</u>	<u>1,340</u>
Earnings (loss) from continuing operations before income taxes:		
Manufacturing	496	(467)
Investments	<u>(149)</u>	<u>-</u>
	347	(467)
Income tax provision (Notes 2 & 6)	<u>173</u>	<u>-</u>
Earnings (loss) from continuing operations	174	(467)
Discontinued operations		
Loss on disposal of divisions, net of income taxes of \$34 (Notes 3 & 4)	<u>-</u>	<u>(34)</u>
Net earnings (loss)	<u>\$ 174</u>	<u>\$ (501)</u>

Earnings (Loss) per Share Information (Notes 2 & 7)

Earnings (loss) per common share:

From continuing operations	\$.03	\$ (.20)
Discontinued operations	<u>-</u>	<u>(.02)</u>
Net earnings (loss)	<u>\$.03</u>	<u>\$ (.22)</u>
Dividend per common share	<u>\$ -</u>	<u>\$ -</u>
Weighted average common shares outstanding (in thousands):	<u>2,778</u>	<u>2,785</u>

See accompanying notes to summarized financial information.

LS 002592

GOLCONDA CORPORATION
CONSOLIDATED STATEMENT OF OPERATIONS
Nine Months Ended September 30, 1976 and 1975
(In Thousands of Dollars Except Per Share Data)
(Unaudited)

	<u>1976</u>	<u>1975</u>
Net sales from manufacturing operations	\$ 18,975	\$ 16,060
Cost of goods sold (Note 1)	<u>15,668</u>	<u>13,468</u>
Gross profit from manufacturing operations	<u>3,307</u>	<u>2,592</u>
Selling, general and administrative expenses	<u>3,688</u>	<u>3,896</u>
Interest expense	444	551
Interest income	(441)	(343)
Other (income) expense, net (Note 5)	<u>(220)</u>	<u>1,016</u>
	<u>3,471</u>	<u>5,120</u>
Loss from continuing operations before income taxes:		
Manufacturing	(164)	(2,528)
Investments	(175)	-
	<u>(339)</u>	<u>(2,528)</u>
Income tax provision (Notes 2 & 6)	<u>(169)</u>	<u>-</u>
Loss from continuing operations	(170)	(2,528)
Discontinued operations		
Loss on disposal of divisions, net of income taxes of \$547 (Notes 3 & 4)	<u>-</u>	<u>(547)</u>
Net loss	<u><u>\$ (170)</u></u>	<u><u>\$ (3,075)</u></u>
<u>Loss per Share Information (Notes 2 & 7)</u>		
Loss per common share:		
From continuing operations	\$(.16)	\$(1.01)
Discontinued operations	<u>-</u>	<u>(.20)</u>
Net loss	<u><u>\$(.16)</u></u>	<u><u>\$(1.21)</u></u>
Dividend per common share	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Weighted average common shares outstanding (in thousands):	<u><u>2,783</u></u>	<u><u>2,785</u></u>

See accompanying notes to summarized financial information.

LS 002593

GOLCONDA CORPORATION
CONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 1976
(In Thousands of Dollars)
(Unaudited)

ASSETS

Current assets:

Cash	\$ 175
Commercial paper	10,500
Notes and accounts receivable, less allowance for doubtful receivables of \$106	4,353
Inventories:	
Raw materials and supplies	1,504
Finished goods and work in process	8,116
Income taxes:	
Refund receivable	1,211
Deferred	847
Prepaid expenses and sundry deposits	185
Investments held for sale--at estimated realizable value	175
Assets of businesses held for sale--at estimated realizable value	536
Total current assets	<u>27,602</u>

Property, plant and equipment--at cost:

Buildings and improvements	2,947
Machinery, equipment and tools	6,951
Office furniture and fixtures	247
	<u>10,145</u>
Less accumulated depreciation	(5,760)
	<u>4,385</u>
Land	598
	<u>4,983</u>

Excess of cost over underlying equity of net
assets acquired

3,135

Deferred debt expense-less amortization on the
bonds outstanding method

306

Sundry

49

Total Assets

\$36,075

See accompanying notes to summarized financial information.

LS 002594

GOLCONDA CORPORATION
CONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 1976
(In Thousands of Dollars)
(Unaudited)

LIABILITIES

Current liabilities:	
Current maturities of long-term debt (Note 8)	\$ 95
Accounts payable	1,608
Accounts payable-parent (Note 10)	1,507
Accrued liabilities:	
Salaries and wages	262
Property and payroll taxes	333
Interest	74
Employee benefits	17
Other	759
Total current liabilities	<u>4,655</u>
Long-term debt (Note 8)	6,566
Deferred income taxes	643
Contingent liabilities (Note 11)	-
	<u>11,864</u>

STOCKHOLDERS' EQUITY

Capital stock (Note 9):	
Preferred (Redemption and liquidation value \$14,306)	381
Common	774
Additional contributed capital	5,654
Retained earnings	17,957
	<u>24,766</u>
Less treasury stock--at cost	(555)
	<u>24,211</u>
Total Liabilities and Stockholders' Equity	<u>\$ 36,075</u>

See accompanying notes to summarized financial information.

LS 002595

GOLCONDA CORPORATION
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
Nine Months Ended September 30, 1976
(In Thousands of Dollars)
(Unaudited)

	<u>Preferred Stock</u>	<u>Common Stock</u>	<u>Additional Contributed Capital</u>	<u>Retained Earnings</u>	<u>Treasury Stock</u>	<u>Total</u>
Balance January 1, 1976	\$ 383	\$ 774	\$ 5,674	\$18,413	\$ (520)	\$24,724
Conversion of 67 convert- ible preferred shares to 100 common shares						
Repurchase of stock:						
Common, 8,068 shares					(35)	(35)
Preferred, 1,605 shares (2)			(20)			(22)
Preferred cash dividends				(286)		(286)
Net loss				(170)		(170)
Balance September 30, 1976	\$ <u>381</u>	\$ <u>774</u>	\$ <u>5,654</u>	\$ <u>17,957</u>	\$ <u>(555)</u>	\$ <u>24,211</u>

See accompanying notes to summarized financial information.

LS 002596

GOLCONDA CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1976
(In Thousands of Dollars)
(Unaudited)

Sources of Working Capital:

Working Capital Provided by Operations

Net loss	\$(170)
Items not requiring outlay of working capital	
Depreciation	584
Amortization of deferred expenses	<u>30</u>
From operations	444
Other	<u>125</u>
Working capital provided	<u>569</u>

Dispositions of Working Capital:

Repurchase of stock	57
Additions to property, plant and equipment	366
Preferred cash dividends	286
Reduction of long-term debt	<u>140</u>
Dispositions of working capital	<u>849</u>
Decrease in Working Capital	<u><u>\$(280)</u></u>

See accompanying notes to summarized financial information.

LS 002597

GOLCONDA CORPORATION

Notes to Summarized Financial Information
(Unaudited)

The accompanying summarized financial information, which is for interim periods, does not include all disclosures provided in annual financial statements. This summarized financial information should be read in conjunction with the consolidated financial statements and the footnotes with respect thereto contained in the Company's 1975 Annual Report to Shareholders.

1. The financial information included herein has been prepared from the records of the Company without audit and, in the opinion of management, reflects all adjustments necessary to the fair presentation of the financial statements, including, in the second quarter of 1976, a provision for inventory obsolescence of \$1,200,000 in cost of sales. The results for the quarter and nine months ended September 30, 1976 are not necessarily indicative of the results to be expected for the current year.
2. The loss for the quarter and nine months ended September 30, 1975 has been restated as follows (in thousands, except per share data):

	Quarter		Nine Months	
	As Previously Reported	As Restated	As Previously Reported	As Restated
Loss from continuing operations before income taxes	\$(467)	\$(467)	\$(2,528)	\$(2,528)
Income tax benefit	236	-	1,266	-
Loss from continuing operations	(231)	(467)	(1,262)	(2,528)
Net loss	(265)	(501)	(1,809)	(3,075)
Net loss per common share	\$(.13)	\$(.22)	\$(.75)	\$(1.21)

LS 002598

Golconda incurred substantial tax losses in 1975, excluding the 1974 gains from the sale of Hecla Mining Company stock accounted for on the installment method for tax purposes. As previously reported, taxes on the Hecla gains were provided at the 30% capital gains rate. Because of the effect of the substantial tax losses from operations and the recognition of the Hecla gain in 1975, additional taxes of \$236,000 and \$1,266,000 were required to be provided in the quarter and nine months ended September 30, 1975, respectively, since the Hecla gain was effectively taxed at the 48% statutory rate.

The restatements do not require a change in Golconda's reported results of operations for the full year 1975, but relate solely to interim periods thereof.

3. In February, 1975 Golconda entered into an agreement to sell the Bastian-Blessing Division (B-B). A \$2,190,000 provision for loss on the sale, comprised of the write-off of \$1,240,000 of goodwill applicable to B-B and a \$950,000 loss on disposal of net assets, net of a \$950,000 tax benefit, was reflected in the financial statements for the year ended December 31, 1974. The final agreed cash price amounted to \$3,850,000 and resulted in an actual loss of \$2,406,000. The additional loss of \$216,000, which is net of a tax benefit of \$146,000, was recorded in 1975. Of this loss, \$204,000, net of tax benefit of \$204,000, was recorded in the first nine months of 1975.
4. In April, 1975 Golconda entered into an agreement to sell its Pioneer Astro Industries Division (PAI) contracts business. The final loss of \$519,000 was based upon a cash price of \$1,184,000, net of \$487,000 tax benefit. The loss estimated in the first nine months of 1975 represents the results of operations and a preliminary estimate of loss of \$343,000 on disposal of the contracts business, net of a tax benefit of \$343,000.
5. In May, 1975 Golconda ceased operations at its Golconda Metals Division (GMD) plant in Alsip, Illinois. The original estimate of loss reported in the second quarter of 1975 was \$1,028,000 and was included in other (income) expense, net in the Consolidated Statement of Operations.

LS 002599

6. For the quarter and nine months ended September 30, 1976 and 1975, the provision (benefit) for income taxes consisted of (in thousands):

	1976		1975	
	<u>Quarter</u>	<u>Nine Months</u>	<u>Quarter</u>	<u>Nine Months</u>
Current:				
Federal	\$ 45	\$(1,188)	\$ (34)	\$(547)
State	(29)	(8)	-	-
Deferred	157	1,027	-	-
	<u>\$ 173</u>	<u>\$(169)</u>	<u>\$(34)</u>	<u>\$(547)</u>

Deferred income taxes result from differences in the recognition of revenue and expense for tax and financial statement purposes and consist of the following:

	1976	
	<u>Quarter</u>	<u>Nine Months</u>
Realization of reserves:		
Inventory	\$ 126	\$ 626
GMD loss	47	297
PAI loss	(7)	63
Excess of tax over book depreciation	-	40
Other	(9)	1
	<u>\$ 157</u>	<u>\$1,027</u>

For the quarter and nine months ended September 30, 1975, no tax benefit for the loss from continuing operations was provided. See Note 2 for discussion and restatement.

Golconda has been included in the consolidated Federal income tax return filed by its parent, Cerro-Marmon Corporation, owner of approximately 85% of its voting securities, since May, 1974.

7. Earnings (loss) per common share was computed based on the weighted average number of common shares outstanding in each quarter, after recognition of dividend requirements on preferred stock. Conversion of the \$1 par value cumulative convertible preferred stock and the 7% convertible subordinated debentures was not assumed because of the anti-dilutive effect in both periods.

LS 002600

8. Long-term debt at September 30, 1976 is comprised of:

7% convertible subordinated debentures, due January 1, 1990	\$4,095,000
10% first mortgage note, payable in monthly installments of \$28,975 including interest, final payment due April 1, 1990	<u>2,566,000</u>
	6,661,000
Less current maturities	<u>95,000</u>
	<u>\$6,566,000</u>

The 7% convertible subordinated debenture agreement contains certain covenants, the most restrictive of which provide, among other things, that the Company:

Will maintain consolidated net working capital of \$10,000,000. At September 30, 1976, consolidated net working capital was \$22,947,000.

Will not pay cash dividends or acquire for cash any shares of its common stock in excess of \$1,000,000 plus its cumulative consolidated net income after November 30, 1969. At September 30, 1976, retained earnings in the amount of \$4,033,000 were free of such restrictions.

In connection with the 7% convertible subordinated debenture agreement, the Company has issued warrants entitling the holders thereof to purchase, at a price per share of \$14.51, up to 292,467 shares of the Company's common stock. These warrants expire January 15, 1979.

The trust indenture underlying the convertible subordinated debentures provides, among other things, that the debentures are redeemable at the Company's option at prices ranging from 104.0% in 1976 to 100% in 1984; that annual sinking fund payments of \$325,000 are required beginning in 1976 (such payments can be reduced by the principal amount of debentures acquired by the Company or converted into common stock, and, as a result, all of the 1976 and 1977 installments and all but \$70,000 of the 1978 installment have already been satisfied); that the Company has an option to make additional annual payments of \$325,000 and that the debentures are convertible into shares of common stock at a conversion price of \$10.67 per share (subject to non-dilution provisions).

LS 002601

9. Preferred stock consists of 934,406 authorized shares of \$1.00 par value, of which 381,485 shares are issued and outstanding at September 30, 1976.

The preferred stock is entitled to a preferential cumulative annual dividend at a rate of \$1.00 per share. The shares are redeemable at the option of the Company at \$37.50 per share plus unpaid cumulative dividends. The aggregate redemption and liquidation value at September 30, 1976 is \$14,305,687. The preferred stock has liquidation rights over the common stock in any final distribution and is entitled to one vote for each share held.

The preferred shares are convertible into common shares at the option of the holder at the rate of one and one-half shares of common stock for each preferred share held. This conversion rate is subject to non-dilution provisions.

Common stock consists of 7,500,000 authorized shares, without par value, of which 2,777,627 shares are outstanding. At September 30, 1976, 1,248,481 shares of authorized but unissued common shares have been reserved as follows: 572,228 shares upon conversion of preferred stock; 383,786 shares upon conversion of the 7% convertible subordinated debentures and 292,467 shares upon exercise of warrants for the purchase of common stock. At September 30, 1976, there are 79,318 shares of common stock held in the treasury.

10. Transactions between the Company and Cerro-Marmon Corporation and its subsidiaries for the nine months ended September 30, 1976 and 1975 include the following:

	<u>1976</u>	<u>1975</u>
Purchases	\$3,327,000	\$2,287,000
Management fee	\$ 86,000	\$ -
Interest income	\$ -	\$ 64,000
Sales	\$ 18,000	\$ 19,000

The Company does not have any other material transactions with Cerro-Marmon Corporation and its subsidiaries other than certain expenses paid by Cerro-Marmon and charged to the Company which are directly attributable to the Company. Cerro-Marmon Corporation did not charge the Company a management fee in 1975.

LS 002602

11. The Company is one of 35 defendants in a class action by a shareholder of United States National Bank of San Diego, in Fred H. Harmsen, et al vs. C. Arnholt Smith, et al, filed on October 29, 1973, in the United States District Court for the Southern District of California. The plaintiff purports to be acting in a derivative capacity on behalf of the shareholders of the bank. The complaint seeks damages and other relief on behalf of the shareholders of the bank on account of alleged violations of federal securities laws, illegal loans, improper acts of the bank's directors, and conspiracy to commit the foregoing acts and fraud.

In the opinion of the Company and legal counsel, the exposure of Golconda Corporation to any liability seems very remote in that the corporation's only connection with the United States National Bank or with C. A. Smith is that some of Golconda Corporation's stock was at one time possessed by one of the Smith-dominated corporations. There have not been any material transactions between the Company and the other defendants and the United States National Bank of San Diego, and it is management's opinion that there are no facts, nor have any been specifically alleged, relating to Golconda warranting inclusion of the Company in the complaint. An identical class action suit was filed by the plaintiff in the Superior Court in and for the County of San Diego to toll the statute of limitations in the State Court, but to date this suit has not yet been formally served upon Golconda Corporation.

On February 6, 1976 the Company filed suit against H. Arnsteen, Inc. and Harold Arnsteen (hereinafter collectively referred to as the "Arnsteens") for breach of contract in a case entitled Golconda Corporation vs. H. Arnsteen, Inc. and Harold Arnsteen, Civil Action File No. 76 C 442 in the United States District Court for the Northern District of Illinois, Eastern Division. The breach of contract action related to the sale by the Company to the Arnsteens of the stock of Pioneer Astro Industries, Inc. and the agreement by the Arnsteens to both fulfill the obligations of a lease with twenty-seven months remaining thereon and also to pay certain accounts payable of Pioneer Astro Industries, Inc. The Arnsteens defaulted in their obligations to fulfill the lease obligations and the obligations concerning accounts payable, and the Company was required, due to said defaults, to perform the obligations which the Arnsteens failed to perform.

LS 002603

On April 7, 1976 the Arnsteens filed their Answer to the Company's Complaint and also filed a Counterclaim naming the Company and several individuals and companies, including Cerro-Marmon Corporation, the parent corporation of the Company, as Counterclaim-Defendants. In the Counterclaim, the Arnsteens allege that the Company and the Counterclaim-Defendants defrauded and misled the Arnsteens and failed to comply with state and federal securities acts with respect to the sale of the stock of Pioneer Astro Industries, Inc., and the Arnsteens' prayer for relief requested that the court rescind the sale of the stock of Pioneer Astro Industries, Inc. and that the Counterclaim-Defendants pay to the Arnsteens an amount equal to the amount paid for the stock of Pioneer Astro Industries, Inc., together with interest and an amount equal to such other damages as may be proved by the Arnsteens. In the opinion of the Company and legal counsel, the Counterclaim is without merit, and the exposure of the Company is minimal.

The lawyers which previously represented the Arnsteens have withdrawn as their counsel and currently the Arnsteens are not represented by counsel in this matter. The Company has filed a motion to dismiss the Counterclaim for failure to state a claim, and on October 22, 1976 the court dismissed the Counterclaim.

As of September 30, 1976, there were no other pending legal proceedings to which the Company or any of its subsidiaries is a party, or to which any of their property is subject, the results of which are likely to be materially adverse to the Company. In addition, there are no suits or proceedings pending or, to the knowledge of the Company, threatened, under any civil rights or environmental protection statutes, which, in the aggregate, could have a materially adverse effect on the Company.

12. The Company is purchasing its debentures, preferred stock and common stock, both in open market transactions and direct from security holders. Purchases of the debentures and preferred stock are being made at current market prices as they exist from time to time. Purchases of the common stock are being made in accordance with volume and price guidelines contained in proposed Rule 13e-2 under the Securities Exchange Act of 1934. This purchase program will extend for an indefinite period of time. The program may be suspended at any time or from time to time as to one or more of the three securities.

LS 002604

Management Analysis of Variations in Operations

a) Three Months Ended September 30, 1976 and 1975:

Sales in the third quarter of 1976 rose \$1,085,000 or 22% over the same period in 1975. On the average, selling prices have increased 9% overall since September of 1975. The remainder of the increase is due to unit sales volume and sales mix.

Cost of goods sold rose \$304,000 or 7%. This increased as sales volume increased, but was affected by sales mix, as much of the increased volume was higher margin products. The cost of goods sold increase was also affected by favorable overhead variances.

Selling, general and administrative expenses decreased 1%. Interest expense decreased \$14,000 or 9% due to the decrease in outstanding debt. Interest income increased \$20,000 or 13% due primarily to the increase in short-term investments. Other income in the third quarter of 1976 increased \$136,000 principally because the third quarter of 1975 included a \$127,000 loss provision related to the write-down of the Company's advances to and investments in various foreign joint ventures. The loss from investments at September 30, 1976 is primarily an additional write-down of mining stocks and related assets to estimated realizable value.

b) Three Months Ended September 30, 1976 and June 30, 1976:

Sales in the third quarter of 1976 decreased \$552,000 or 8% from the second quarter of 1976. Volume decrease was the principal reason for the decrease. This volume decrease can be attributed to the annual plant vacation shutdowns that occur in the third quarter. This decrease in volume was offset partially by selling price increases in July (average 3.2% price increase).

Cost of goods sold decreased \$1,813,000 or 29%. The second quarter of 1976 included the inventory obsolescence adjustment of \$1,200,000. The decrease, excluding the \$1,200,000, was in line with the volume decrease in sales.

LS 002605

Selling, general and administrative expenses decreased \$24,000 or 2%. Interest expense increased \$3,000 or 2%. Interest income rose \$18,000 or 13% due to a slight increase in short-term investments, as well as a change to higher yield investments. Other income decreased \$1,000 or 1%. The loss from investments for the quarter ended September 30, 1976 is due primarily to an additional write-down of mining stocks and related assets to estimated realizable value.

c) Nine Months Ended September 30, 1976 and 1975:

Sales for the first nine months of 1976 rose \$2,915,000 or 18% over the same period of 1975. On the average, selling prices have increased 9% overall since September of 1975. The increase in sales was also affected by an increase in unit sales volume and sales mix.

Cost of goods sold increased \$2,200,000 or 16%. \$1,200,000 of the increase is due to the inventory obsolescence adjustment recorded in the second quarter of 1976. Cost of goods sold also increased due to the sales volume increase, but not as rapidly since much of the increased volume was higher margin products. The cost of goods sold increase was also offset somewhat by favorable overhead variances.

Selling, general and administrative expenses decreased \$208,000 or 5% due principally to decreased personnel and related expenses. Interest expense decreased \$107,000 or 19% due primarily to the decrease in outstanding debt. Interest income rose \$98,000 or 29% due primarily to the increase in short-term investments. Interest income in 1976 included \$55,000 from a note receivable related to the B-B sale which was collected in April 1976. Other income in the first nine months of 1976 increased \$1,236,000 principally because the same period in 1975 included the GMD loss provision of \$1,028,000 and a \$133,000 loss provision related to the write-down of various foreign joint ventures. The loss from investments for the nine months ended September 30, 1976 is primarily the write-down of mining stocks and related assets to estimated realizable value.

LS 002606

Other Financial Information

See Golconda Corporation's report on Form 8-K for the month of July, 1976 which by reference is hereby incorporated herein, relating to the provision for inventory obsolescence. No report on Form 8-K was required to be filed during the three months ended September 30, 1976 with respect to any change in independent accountants.

LS 002607

Sales of Unregistered Securities (Debt or Equity)

There were no sales of unregistered securities as defined in Section 2(1) of the Securities Act of 1933 during the period ended September 30, 1976.

LS 002608

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GOLCONDA CORPORATION
(Registrant)

Date: November 8, 1976

/s/ D. R. Nomura

D. R. Nomura, Treasurer

Date: November 8, 1976

/s/ T. L. Seifert

T. L. Seifert, Secretary

LS 002609

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Year Ended
December 31, 1977

Commission File Number
1-848

The RegO Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

36-2891460

(I.R.S. Employer
Identification Number)

39 South LaSalle Street, Chicago, Illinois

(Address of principal executive offices)

60603

(Zip Code)

Registrant's telephone number, including area code (312) 372-9500

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
\$1.00 Cumulative Convertible Preferred Stock	Pacific Stock Exchange
Common Stock	Pacific Stock Exchange, Spokane Stock Exchange and Intermountain Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

7% Convertible Subordinated Debentures due January 1, 1990

Title of Class

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the period covered by this report.

Common stock outstanding as of December 31, 1977:

2,690,644 shares

LS 002610

Part I

ITEM 1.

BUSINESS

On June 17, 1977 the shareholders approved a change in the state of incorporation from Idaho to Delaware by merging Golconda Corporation into The RegO Group, Inc. (the "Company") (formerly Rego Company), a wholly-owned Delaware subsidiary.

The Company designs, develops, manufactures and markets pressure regulators, valves and other control equipment for LP-gas and anhydrous ammonia; pressure regulators, cylinder valves, manifolds and other control equipment for compressed gases and gas welding and cutting equipment. The Company also manufactures and markets a line of fittings for use with copper tubing, garden and air hoses. A common characteristic of these products is the control of the flow of gases and liquids under a wide variety of temperatures and pressure extremes. The products are sold principally in the United States through full-time salesmen, distributors and manufacturer's agents. A significant portion of the sales are to the petroleum, construction and plumbing industries. In 1977, approximately 12% of its sales were to one customer. Its five largest customers accounted for about 29% of its sales.

Competition

The Company is subject to intense competition from older and larger firms having greater financial resources and from smaller local and regional competitors which have advantages deriving from proximity to local markets.

Backlog

As of December 31, 1977, the Company's backlog of orders totaled \$6,055,000, all of which are expected to be filled in 1978. At December 31, 1976, the backlog amounted to \$5,645,000. Backlog amounts are not necessarily indicative of sales for subsequent periods because of the short lead time between receipt of order and delivery.

Materials

Raw materials and components used in the manufacturing operations are available from more than one supplier, although certain parts and materials are obtained from a single supplier.

Research and Development

The dollar amount of expenditures during the last two years was not material.

Number of Employees

The Company has approximately 800 full-time employees at December 31, 1977.

Environmental Matters

The Company is subject to environmental regulation by federal, state and local authorities. There are no known material expenditures required for pollution control equipment under applicable environmental laws.

Business Segment Information

The Company's continuing manufacturing operations are, and have been for the last five years, engaged in one industry—the production of regulators and other devices to control the flow of gases and liquids. Information with respect thereto appears on page 12 of the Company's 1977 Annual Report to Shareholders and is hereby incorporated by reference.

ITEM 2.

LS 002611

SUMMARY OF OPERATIONS

The Summary of Operations for the four years ended December 31, 1977 and for the year ended November 30, 1973 and Management's Discussion and Analysis of Results of Operations

appear on pages 13, 14 and 15 of the Company's 1977 Annual Report to Shareholders and are hereby incorporated by reference.

ITEM 3.

PROPERTIES

Manufacturing operations are conducted at two Company-owned locations in the Chicago area having an aggregate of approximately 350,000 square feet of floor space. A distribution center with approximately 9,000 square feet located in Saddle River, New Jersey is leased for an annual rental of \$29,400. In the opinion of management, the manufacturing facilities are well maintained and suitable for their intended use.

ITEM 4.

PARENTS AND SUBSIDIARIES

Parent

The Marmon Group, Inc. (Marmon), a Delaware corporation, (a subsidiary of GL Corporation, which owns 82% of the voting interest in Marmon) located at 39 South LaSalle Street, Chicago, Illinois, 60603, owns 76% of the Company's preferred stock and 90% of its common stock, constituting 88% of the outstanding voting stock and is deemed the parent of the Company.

Subsidiaries

The Company had no significant subsidiaries at December 31, 1977. On January 27, 1978, the Company's principal operating division ("RegO") was merged into RegO Company, a newly formed wholly-owned Delaware subsidiary.

ITEM 5.

LEGAL PROCEEDINGS

A discussion of pending legal proceedings and contingencies appears on page 10 of the Company's 1977 Annual Report to Shareholders and is hereby incorporated by reference.

ITEM 6.

INCREASES AND DECREASES IN OUTSTANDING SECURITIES AND INDEBTEDNESS

	<u>Number of shares</u>
(A) Cumulative Convertible Preferred Stock	
Balance December 31, 1976	380,902
Purchased during the year	<u>12,628</u>
Balance December 31, 1977	<u>368,274</u>
(B) Common Stock	
Balance December 31, 1976	2,774,392
Purchased during the year	<u>83,748</u>
Balance December 31, 1977	<u>2,690,644</u>
(C) 7% Convertible Subordinated Debentures, due January 1, 1990	<u>Face Value</u>
Balance December 31, 1976	\$3,976,000
Purchased during the year	<u>6,000</u>
Balance December 31, 1977	<u>\$3,970,000</u>

ITEM 7.

CHANGES IN SECURITIES AND CHANGES IN SECURITY FOR REGISTERED SECURITIES

No response to this item is required since the information called for herein has been previously reported in a report on Form 10-Q.

ITEM 8.**DEFAULTS UPON SENIOR SECURITIES**

There have been no defaults upon any senior securities during the year.

ITEM 9.**APPROXIMATE NUMBER OF EQUITY SECURITY HOLDERS**

<u>Title of class</u>	<u>Number of record holders as of December 31, 1977</u>
Cumulative Convertible Preferred Stock	598
Common Stock	1,233
7% Convertible Subordinated Debentures, due January 1, 1990	643
Warrants to purchase Common Stock at \$14.51 per share, expiring January 15, 1979	4

ITEM 10.**SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No response to this item is required since the information called for herein has been previously reported in a report on Form 10-Q.

ITEM 11.**EXECUTIVE OFFICERS OF REGISTRANT**

Listed below are the names, ages and business experience during the past five years of each executive officer. There are no family relationships between any of the executive officers.

Gordon Paul Smith	(61)	Chairman of the Board since June 1974. President and Chief Executive Officer (February 1972 to June 1974). Chairman of the Executive Committee since 1971 and a Director since September 1970.
John R. Morrill	(61)	President and Chief Executive Officer since May 1975. Director since June 1975. Prior to joining the Company, a Senior Vice President with Automation Industries (1971-1975).
Robert C. Gluth	(53)	Vice President and Director since December 1975; Treasurer since June, 1977. Elected Executive Vice President of Marmon in September 1976. Elected a Director of Marmon in November 1975 and Vice President in February 1976. Elected a Vice President of Cerro Corporation in May 1975 and a Director in June 1975. A Vice President of The Marmon Group, Inc. (Michigan) since February 1970.
Thomas L. Seifert	(37)	Secretary and General Counsel since December 1975. Elected Secretary and Legal Counsel of Marmon in January 1976 and Associate General Counsel and Assistant Secretary of Cerro Corporation in October 1975. Prior to joining Cerro, Associate General Counsel for Canteen Corporation.
Charles B. Cranford	(40)	Vice President—Controller since January 1974. Controller of RegO since January 1973.
Donald V. Ytterberg	(51)	Vice President since December 1972.

ITEM 12.**INDEMNIFICATION OF DIRECTORS AND OFFICERS**

The General Corporate Law of the State of Delaware provides authority for the indemnification of directors and officers in the defense of civil and criminal actions. The Bylaws of the Company provide for the indemnification of directors and officers to the full extent and in the manner permitted by the laws of the State of Delaware. The Company has no insurance with respect to such indemnification.

LS 002613

ITEM 13.

FINANCIAL STATEMENTS, EXHIBITS FILED, AND REPORTS ON FORM 8-K

(a) Listed below are the financial statements and exhibits filed as part of this report:

(1) Financial Statements—see page 6.

(2) Exhibits—

(A) Calculation of income per share.

(B) Letter from the Company's certified public accountants commenting on changes in the accounting principles or practices followed by the Company.

(C) Certified copy of Board of Directors' Resolution recommending change of name of the Company, the consent by less than all the shareholders to change of name of the Company and a Certificate of Amendment of Certificate of Incorporation.

(b) No report on Form 8-K was required to be filed during the three months ended December 31, 1977.

Part II

ITEMS 14 THROUGH 18, INCLUSIVE

Information called for by items 14 through 18, inclusive, in Part II is not filed at this time pursuant to General Instruction H which permits omission if a definitive proxy statement is filed not later than 120 days after the close of the year.

LS 002614

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, The RegO Group, Inc. has duly caused this Annual Report to be signed on its behalf by the undersigned thereunto duly authorized.

THE REGO GROUP, INC.

(Registrant)

DATE: March 28, 1978

R. C. GLUTH

R. C. Gluth
Vice-President and Treasurer

DATE: March 28, 1978

T. L. SEIFERT

T. L. Seifert
Secretary and General Counsel

LS 002615

THE RegO GROUP, INC.

**INDEX TO FINANCIAL STATEMENTS
COVERED BY REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

	References	
	Form 10-K (Page)	Annual report to shareholders (Page)
Report of Certified Public Accountants		3
Data incorporated by reference from attached The RegO Group, Inc. 1977 Annual Report to Shareholders:		
Consolidated balance sheets at December 31, 1977 and 1976		4-5
For the years ended December 31, 1977 and 1976:		
Consolidated statement of income		6
Consolidated statement of shareholders' equity		6
Consolidated statement of changes in financial position		7
Notes to consolidated financial statements		8-12
Consolidated schedules for the years ended December 31, 1977 and 1976:		
V—Property, plant and equipment	7	
VI—Accumulated depreciation, depletion and amortization of property, plant and equipment	7	
XII—Valuation and qualifying accounts and reserves	8	
XVI—Supplementary income statement information	8	

Schedules not included above are omitted as either not applicable or not required or the required information is included in the financial statements or the notes thereto.

The individual financial statements and schedules of the Company are omitted because the Company is primarily an operating company and all subsidiaries included in the consolidated financial statements being filed are totally-held subsidiaries and, in the aggregate, do not have indebtedness to any person, including the Company and its consolidated subsidiaries, in amounts which exceed 5% of the total assets as shown by the most recent year-end consolidated balance sheet.

Those financial statements listed in the above index together with the report thereon of Arthur Young & Company dated March 9, 1978 which are included in the Annual Report to Shareholders of The RegO Group, Inc. for the year ended December 31, 1977 are hereby incorporated by reference. All other pages of the Company's Annual Report to Shareholders are incorporated elsewhere herein by reference, with the exception of the Letter from the President (page 1), General Information (page 2) and Business Description (page 3), which are not deemed to be filed as part of this annual report.

LS 002616

THE RegO GROUP, INC.

**SCHEDULE V
PROPERTY, PLANT AND EQUIPMENT
(In thousands of dollars)**

<u>Classification</u>	<u>Balance at beginning of period</u>	<u>Additions, at cost</u>	<u>Retirements and sales</u>	<u>Balance at end of period</u>
Year ended December 31, 1977				
Land	\$ 598	\$	\$ (461) (A)	\$ 137
Buildings and improvements	2,995	84	(462) (A)	2,617
Machinery and equipment	<u>7,229</u>	<u>915</u>	<u>(453)</u>	<u>7,691</u>
	<u>\$10,822</u>	<u>\$ 999</u>	<u>\$ (1,376)</u>	<u>\$10,445</u>
Year ended December 31, 1976				
Land	\$ 598	\$	\$	\$ 598
Buildings and improvements	2,947	57	(9)	2,995
Machinery and equipment	<u>7,345</u>	<u>429</u>	<u>(545)</u>	<u>7,229</u>
	<u>\$10,890</u>	<u>\$ 486</u>	<u>\$ (554)</u>	<u>\$10,822</u>

**SCHEDULE VI
ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION OF
PROPERTY, PLANT AND EQUIPMENT
(In thousands of dollars)**

<u>Description</u>	<u>Balance at beginning of period</u>	<u>Additions charged to costs and expenses</u>	<u>Retirements and sales</u>	<u>Balance at end of period</u>
Year ended December 31, 1977				
Buildings and improvements	\$1,442	\$ 136	\$ (126) (A)	\$1,452
Machinery and equipment	<u>4,407</u>	<u>693</u>	<u>(430)</u>	<u>4,670</u>
	<u>\$5,849</u>	<u>\$ 829</u>	<u>\$ (556)</u>	<u>\$6,122</u>
Year ended December 31, 1976				
Buildings and improvements	\$1,308	\$ 143	\$ (9)	\$1,442
Machinery and equipment	<u>4,372</u>	<u>572</u>	<u>(537)</u>	<u>4,407</u>
	<u>\$5,680</u>	<u>\$ 715</u>	<u>\$ (546)</u>	<u>\$5,849</u>

(A) Relates principally to the sale of a regional warehouse facility.

LS 002617

THE Rego GROUP, INC.

SCHEDULE XII

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

(In thousands of dollars)

<u>Description</u>	<u>Balance at beginning of period</u>	<u>Additions charged to costs and expenses</u>	<u>Deductions</u>	<u>Balance at end of period</u>
Allowance for doubtful receivables				
Years ended December 31,				
1977	\$ 130	\$ 55	\$ (65) (1)	\$ 120
1976	\$ 291	\$ 42	\$ (203) (1)	\$ 130

Inventory valuation reserve

Years ended December 31,

1977	\$ 990	\$ 64	\$ (400) (2)	\$ 654
1976	\$1,650	\$1,395	\$ (2,055) (2)	\$ 990

(1) Write-off of uncollectible accounts, net of recoveries.

(2) Disposals of obsolete inventory.

SCHEDULE XVI

SUPPLEMENTARY INCOME STATEMENT INFORMATION

(In thousands of dollars)

	<u>Years ended December 31,</u>	
	<u>1977</u>	<u>1976</u>
Maintenance and repairs	\$891	\$660
Taxes, other than income taxes		
Real estate and personal property	239	251
Payroll	761	609
Sundry	35	31
Rents	305	298

LS 002618

THE RegO GROUP, INC.

CALCULATION OF INCOME PER SHARE

(In Thousands)

	<u>1977</u>	<u>1976</u>	<u>1975</u>	<u>1974(A)</u>	<u>1973</u>
Shares for computations:					
Weighted average shares outstanding	2,739	2,781	2,785	2,785	2,785
Common stock equivalents(B):					
Assumed conversion of convertible preferred stock into common(C)	<u>564</u>			<u>575</u>	<u>580</u>
Common shares for primary income per share	3,303	2,781	2,785	3,360	3,365
Assumed conversion of 7% convertible subordinated debentures(D)	<u>372</u>			<u>416</u>	<u>428</u>
Common shares for fully diluted income per share	<u>3,675</u>	<u>2,781</u>	<u>2,785</u>	<u>3,776</u>	<u>3,793</u>
Net income for computations:					
Income (loss) from continuing operations	\$2,245	\$ 95	\$(4,580)	\$ 7,476	\$ 3,153
Income (loss) of discontinued operations			(735)	(1,915)	48
Income (loss) before preferred dividend requirement	2,245	95	(5,315)	5,561	3,201
Less preferred dividend requirement(C) ..		(381)	(383)		
Net income (loss) for primary earnings per share	2,245	(286)	(5,698)	5,561	3,201
Add interest savings of 7% convertible debentures, net of applicable income taxes(D)	<u>148</u>			<u>184</u>	<u>185</u>
Net income (loss) for fully diluted income per share	<u>\$2,393</u>	<u>\$ (286)</u>	<u>\$(5,698)</u>	<u>\$ 5,745</u>	<u>\$ 3,386</u>
Net income (loss) per common share:					
Primary					
Continuing operations	\$.68	\$ (.10)	\$ (1.79)	\$ 2.23	\$.94
Net income .....	.68	(.10)	(2.05)	1.66	.95
Fully diluted					
Continuing operations .....	.65	(.10)	(1.79)	2.03	.88
Net income .....	.65	(.10)	(2.05)	1.52	.89

(A) In 1974, the Company changed its fiscal year end to December 31 to conform to the year end of its parent. December 1973 operating results of \$279,000, net of taxes of \$47,000, have been credited directly to retained earnings.

(B) Yield of the 7% convertible debentures exceeded 66 $\frac{2}{3}$ % of prime rate at date of issue and, therefore, is not a common stock equivalent.

(C) Anti-dilutive in 1976 and 1975. Dilutive, and therefore included in shares for primary income computation, in 1977, 1974 and 1973.

(D) Anti-dilutive in 1976 and 1975.

LS 002619

CONSENT OF CERTIFIED PUBLIC ACCOUNTANTS

We consent to the incorporation by reference in this Annual Report on Form 10-K of The RegO Group, Inc. of our report dated March 9, 1978 included in the 1977 Annual Report to Shareholders of The RegO Group, Inc.

We also consent to the addition of the consolidated schedules of The RegO Group, Inc. listed in the accompanying index to financial statements to the statements covered by our report dated March 9, 1978 incorporated herein by reference.

ARTHUR YOUNG & COMPANY

Chicago, Illinois
March 28, 1978

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THE REGO GROUP, INC.

ANNUAL REPORT 1977

LS 002623

(Formerly Golconda Corporation)

To Our Shareholders

The year 1977 showed a substantial improvement from the two preceding years. Sales of \$34,324,000 were up 28% over 1976 and net income was \$2,245,000 in 1977 compared to \$95,000 in 1976 (after an inventory valuation adjustment of \$697,000 net of tax).

In 1977, the Company adopted the last-in, first-out (LIFO) method of inventory valuation for substantially all of its inventory. The change to LIFO reduced net income in 1977 by \$891,000.

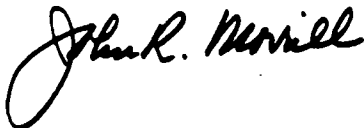
A major factor in the year's profitability was the improvement in the LP-Gas market to which RegO sells most of its product. RegO's customers, the dealers distributing propane and butane, had a good year because of the severe winter. They expanded their operations and re-established their equipment replacement programs.

RegO's cost reduction programs were on target and saved the company over \$700,000. A surplus warehouse and land across the street from the RegO Division plant were disposed of mid-year at over book value.

The Company substantially reduced product liability insurance coverage in 1977 due to the unavailability of such coverage at an acceptable cost. As discussed in Note 7 to the consolidated financial statements, possible losses from product liability claims are not determinable but could involve significant amounts. The Company is carefully monitoring quality and keeping proper records in order to minimize product liability exposure.

As you are aware, Golconda Corporation changed its name in June, 1977 to RegO Company and reincorporated in Delaware. Early in 1978, we changed the name of the parent corporation to The RegO Group, Inc. and set up the RegO Division as a separate wholly owned subsidiary called RegO Company. The two name changes required no change in your common or preferred stock certificates.

Sincerely,



John R. Morrill
President

LS 002624

GENERAL INFORMATION

Officers and Directors

R. M. Dunn

Director and Chairman of Executive Committee
Ozark Airlines, Inc., St. Louis, Missouri
Chairman of the Board
Ken-A-Vision Manufacturing Co. (manufacturing)
Kansas City, Missouri

W. Featherstone

Mining Engineer
Wallace, Idaho

R. C. Gluth

Vice President and Treasurer
The RegO Group, Inc.
Executive Vice President
The Marmon Group, Inc. (diversified manufacturing)

G. A. Jones

Executive Vice President
The Marmon Group, Inc. (diversified manufacturing)

H. F. Magnuson

Partner
H. F. Magnuson & Company
(Certified Public Accountants)
Wallace, Idaho

J. R. Morrill

President and Chief Executive Officer
The RegO Group, Inc.

R. A. Pritzker

President and Treasurer
The Marmon Group, Inc. (diversified manufacturing)

G. P. Smith

Chairman of the Board
The RegO Group, Inc.

C. B. Cranford

Vice President—Controller

T. L. Seifert

Secretary and General Counsel

D. V. Ytterberg

Vice President

Capital Stock

The Company's common shares are traded on the Pacific, Spokane and Intermountain Stock Exchanges (symbol: REG). Its preferred stock is traded on the Pacific Stock Exchange (symbol: REG. PR). The Marmon Group, Inc. owns 90% of the Company's common shares and 76% of its preferred shares.

The following table presents the quarterly high and low prices of the Company's common and preferred stock for the past two years as reported by the Pacific Stock Exchange:

	Common		Preferred	
	High	Low	High	Low
1977				
First Quarter	\$3¾	\$3	\$14½	\$13¾
Second Quarter	5	3	15¾	14¼
Third Quarter	4¾	4½	15¾	14¾
Fourth Quarter	5¼	4	16¼	14¼
1976				
First Quarter	4¼	3	12	10
Second Quarter	4¼	3	12¾	11¾
Third Quarter	4¼	3¾	13	12¼
Fourth Quarter	4¼	3¾	14½	13

No dividends have been paid on common stock during the past two years. A dividend of \$.25 per share has been paid each quarter for the past two years on the \$1.00 Cumulative Convertible Preferred Stock.

Transfer Agent & Registrar

American National Bank & Trust Company
33 N. LaSalle Street
Chicago, Illinois 60690

Auditors

Arthur Young & Company
One IBM Plaza
Chicago, Illinois 60611

1978 Annual Meeting

The RegO Group, Inc. 1978 annual meeting of shareholders will be at 9:00 A.M. on June 16, 1978, at the offices of the subsidiary, RegO Company, 4201 W. Peterson Avenue, Chicago, Illinois 60646.

Form 10-K

A copy of the annual report to the Securities and Exchange Commission on Form 10-K may be obtained from the Company at no expense to the shareholder. Direct your request to:

Mr. Thomas L. Seifert, Secretary
The RegO Group, Inc.
39 South LaSalle Street
Chicago, Illinois 60603

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BUSINESS DESCRIPTION

On June 17, 1977, the shareholders approved a change in the state of incorporation from Idaho to Delaware by merging Golconda Corporation into The RegO Group, Inc. (the "Company") (formerly RegO Company), a wholly-owned Delaware subsidiary. The Company is engaged in the manufacture and sale of pressure regulators, valves, manifolds, fittings and related equipment used in the control of gases and liquids. A significant portion of the sales are to the petroleum, construction and plumbing industries.

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
and Shareholders
The RegO Group, Inc.

We have examined the consolidated balance sheets of The RegO Group, Inc. (formerly Golconda Corporation) (the "Company") at December 31, 1977 and 1976, and the related consolidated statements of income, shareholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As more fully described in Note 10, the Company purchases a substantial portion of its raw materials from its parent at prices determined by the parties.

As more fully described in Note 7, in 1977 the Company is subject to possible losses relating to uninsured product liability claims. It is not possible at this time to determine the ultimate effect if any, of such claims on the Company's consolidated financial position and results of operations, and no provision for possible product liability losses, which losses could be significant, has been made in the accompanying financial statements.

In our opinion, subject to the effects, if any, on the 1977 consolidated financial statements of the ultimate resolution of the matter discussed in the preceding paragraph, the statements mentioned above present fairly the consolidated financial position of The RegO Group, Inc. at December 31, 1977 and 1976, and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period except for the change, with which we concur, in the method of valuing inventories as described in Note 2.

ARTHUR YOUNG & COMPANY

Chicago, Illinois
March 9, 1978

LS 002626

THE Rego GROUP, INC.
CONSOLIDATED BALANCE SHEET
(In thousands of dollars)

ASSETS

	<u>December 31,</u>	
	<u>1977</u>	<u>1976</u>
Current assets		
Cash (including \$3,000 of certificates of deposit in 1977)	\$ 3,294	\$ 123
Investment agreement receivable—parent (Note 10)	8,411	
Commercial paper, at cost which approximates market	1,100	11,100
Notes and accounts receivable, less allowance for doubtful receivables (1977—\$120; 1976—\$130)	4,644	4,504
Inventories (Note 3)	12,173	9,215
Income taxes (Note 5)		
Refund receivable		937
Deferred	521	755
Other current assets	<u>86</u>	<u>23</u>
Total current assets	30,229	26,657
Property, plant and equipment—at cost (Note 4)		
Land	137	598
Buildings and improvements	2,617	2,995
Machinery and equipment	<u>7,691</u>	<u>7,229</u>
	10,445	10,822
Less accumulated depreciation	<u>(6,122)</u>	<u>(5,849)</u>
Property, plant and equipment—net	4,323	4,973
Excess of cost over underlying equity in net assets acquired	3,135	3,135
Other assets	<u>434</u>	<u>523</u>
	<u><u>\$38,121</u></u>	<u><u>\$35,288</u></u>

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See Notes to Consolidated Financial Statements.

THE RegO GROUP, INC.
CONSOLIDATED BALANCE SHEET
(In thousands of dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY

	<i>December 31,</i>	
	<u>1977</u>	<u>1976</u>
Current liabilities		
Current maturities of long-term debt (Note 4)	\$ 108	\$ 98
Accounts payable	1,913	1,326
Accounts payable—parent	1,489	1,098
Accrued liabilities		
Income taxes	811	
Salaries and wages	175	133
Property and payroll taxes	299	246
Employee benefits	456	661
Other	389	426
Total current liabilities	5,640	3,988
 Long-term debt (Note 4)	 6,307	 6,421
 Deferred income taxes	 575	 518
 Contingent liabilities (Notes 5 and 7)		
 Shareholders' equity (Notes 4 and 8)		
Preferred stock—authorized 919,523 shares, \$1.00 par value; issued and outstanding—368,274 shares in 1977 and 380,902 shares in 1976 (redemption and liquidation value: 1977—\$13,810; 1976—\$14,284) ..	368	381
Common stock—authorized 7,500,000 shares, \$.01 par value (no par in 1976); issued—2,857,110 shares in 1977 and 1976	29	774
Other paid-in capital	6,194	5,648
Retained earnings	19,995	18,127
	26,586	24,930
 Less common stock in treasury—at cost: 1977—166,466 shares; 1976—82,718 shares	 (987)	 (569)
Total shareholders' equity	25,599	24,361
	<u>\$38,121</u>	<u>\$35,288</u>

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See Notes to Consolidated Financial Statements.

THE RegO GROUP, INC.

CONSOLIDATED STATEMENT OF INCOME

(In thousands of dollars except per share data)

	<i>Years ended December 31,</i>	
	<u>1977</u>	<u>1976</u>
Revenues		
Net sales	\$34,324	\$26,809
Other income	1,095	747
	<u>35,419</u>	<u>27,556</u>
Costs and expenses		
Cost of goods sold	25,138	21,618
Selling and administrative expense	5,463	5,147
Interest expense	579	601
	<u>31,180</u>	<u>27,366</u>
Income before allocation of income taxes	4,239	190
Allocation of income taxes (Note 5)	1,994	95
Net income	<u>\$ 2,245</u>	<u>\$ 95</u>
Net income (loss) per common share (Note 9)		
Primary	<u>\$.68</u>	<u>\$ (.10)</u>
Fully diluted	<u>\$.65</u>	<u>\$ (.10)</u>

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 1977 AND 1976

(In thousands of dollars)

	<u>Preferred stock</u>	<u>Common stock</u>	<u>Other paid-in capital</u>	<u>Retained earnings</u>	<u>Treasury stock</u>	<u>Total</u>
Balance at January 1, 1976	\$383	\$ 774	\$5,674	\$18,413	\$(520)	\$24,724
Purchases during the year	(2)		(26)		(49)	(77)
Net income				95		95
Preferred dividends paid				(381)		(381)
Balance at December 31, 1976	381	774	5,648	18,127	(569)	24,361
Change to par value stock		(745)	745			
Purchases during the year	(13)		(199)		(418)	(630)
Net income				2,245		2,245
Preferred dividends paid				(377)		(377)
Balance at December 31, 1977	<u>\$368</u>	<u>\$ 29</u>	<u>\$6,194</u>	<u>\$19,995</u>	<u>\$(987)</u>	<u>\$25,599</u>

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See Notes to Consolidated Financial Statements.

THE RegO GROUP, INC.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(In thousands of dollars)

	<i>Years ended December 31,</i>	
	<u>1977</u>	<u>1976</u>
Sources of working capital		
From operations		
Net income	\$ 2,245	\$ 95
Charges (credits) not involving working capital		
Depreciation	829	715
Deferred income taxes	57	(47)
Other	89	42
Working capital provided from operations	3,220	805
Disposition of property, plant and equipment	820	8
Total	<u>4,040</u>	<u>813</u>
Uses of working capital		
Purchase of property, plant and equipment	999	486
Reduction of long-term debt	114	285
Preferred dividends paid	377	381
Purchase of capital stock	630	77
Other—net		142
Total uses of working capital	<u>2,120</u>	<u>1,371</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u>\$ 1,920</u>	<u>\$ (558)</u>
Changes in the components of working capital		
Cash, certificates of deposit, investment agreement receivable and commercial paper	\$ 1,582	\$ 3,647
Notes and accounts receivable—net	140	(674)
Inventories	2,958	(1,560)
Income taxes	(1,171)	(160)
Investments held for sale		(250)
Net assets of businesses held for sale		(715)
Other current assets	63	(146)
Net increase in current assets	<u>3,572</u>	<u>142</u>
Current maturities of long-term debt	10	9
Accounts payable	978	154
Accrued liabilities	664	537
Net increase in current liabilities	<u>1,652</u>	<u>700</u>
Increase (decrease) in working capital	1,920	(558)
Working capital at beginning of year	22,669	23,227
Working capital at end of year	<u>\$24,589</u>	<u>\$22,669</u>

See Notes to Consolidated Financial Statements.

THE RegO GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts are in thousands of dollars except as noted)

Note 1. Organization

On June 17, 1977, the shareholders approved a change in the state of incorporation from Idaho to Delaware by merging Golconda Corporation into The RegO Group, Inc. (the "Company") (formerly RegO Company), a wholly-owned Delaware subsidiary. This change had no effect on the consolidated financial statements of the Company. The Marmon Group, Inc. (Marmon) owns 76% of the Company's preferred stock and 90% of its common stock, representing 88% of the outstanding voting stock of the Company.

Note 2. Summary of Significant Accounting Policies

Consolidation—all subsidiaries are consolidated and significant intercompany transactions and balances have been eliminated.

Inventories—are stated at the lower of cost or market (principally net realizable value). In 1977, the Company adopted the last-in, first-out (LIFO) method of inventory valuation for substantially all of its inventories. The change was made in order to more closely match current costs with current revenues. The LIFO method is common in the industry and is the predominant method used by Marmon's accounting predecessor company. The cost of the remaining inventories in 1977 (and the cost of all inventories in 1976) was determined on a first-in, first-out (FIFO) basis.

Property, plant and equipment—for financial reporting purposes prior to January 1, 1977, the Company computed depreciation principally on a straight-line basis over the estimated useful lives of the assets. Beginning January 1, 1977, the Company changed to accelerated depreciation methods for all assets acquired subsequent thereto in order to conform to the method predominantly used by Marmon and its other consolidated subsidiaries and to adopt a method under which periodic increases in maintenance will tend to be offset by periodic declines in depreciation. Such change did not have a material effect on income in the current year. The estimated lives used in determining depreciation are as follows:

Buildings and improvements	5 to 50 years
Machinery and equipment	5 to 20 years

Maintenance and repairs are charged to operations as incurred. Major betterments and renewals are capitalized. Any gain or loss upon disposal is reflected in operations.

Income taxes—provision is made for deferred taxes which arise primarily from the use of accelerated depreciation methods for tax purposes and from provisions relating to inventory valuation which are not currently deductible for tax purposes. Available investment tax credits (not significant in amount) are accounted for under the "flow-through" method.

Since February 25, 1976, the Company has been included in the consolidated federal tax return of GL Corporation, the parent of Marmon. Under the terms of a tax sharing agreement with its parent, federal income taxes are computed as if the Company and its subsidiaries continued to file a separate consolidated return and liabilities are remitted to and benefits and refunds obtained from its parent on this basis. State income tax returns are filed on an individual company basis.

Excess of cost over underlying equity in net assets acquired—the amount shown on the balance sheet arose prior to fiscal year 1971 and is not being amortized because, in the opinion of management, there has been no diminution of value.

Pension plans—current costs are accrued and funded on a current basis; unfunded past service costs are accrued and funded on a thirty-year basis.

Note 3. Inventories

Inventories used in the computation of cost of goods sold are comprised of the following:

	1977	1976	1975
Inventories at the lower of cost or market			
Finished goods and work in process	\$12,375	\$8,118	\$ 9,134
Raw materials and supplies	1,479	1,097	1,641
	13,854	9,215	10,775
Less LIFO reserve	1,681		
	<u>\$12,173</u>	<u>\$9,215</u>	<u>\$10,775</u>

THE Rego GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The change to LIFO in 1977 reduced net income by \$891,000 or \$.27 per share (\$.24 on a fully diluted basis). There is no effect on prior years earnings resulting from the change to LIFO in 1977.

Note 4. Long-term debt

Long-term debt is comprised of the following:

	<u>December 31,</u>	
	<u>1977</u>	<u>1976</u>
7% convertible subordinated debentures, due January 1, 1990	\$3,970	\$3,976
10% first mortgage note, payable in monthly installments of \$28,975 including interest, final payment due April 1, 1990	2,445	2,543
	<u>6,415</u>	<u>6,519</u>
Less current maturities	108	98
	<u>\$6,307</u>	<u>\$6,421</u>

The net book value of the property subject to the mortgage at December 31, 1977 was \$964,000.

The aggregate amounts of long-term debt maturing in each of the years 1979-1982 are: \$389,000 in 1979, \$457,000 in 1980, \$471,000 in 1981 and \$486,000 in 1982.

The 7% convertible subordinated debenture agreement contains covenants which provide, among other things, that consolidated working capital is to be maintained at not less than \$10,000,000 and that the Company will not pay cash dividends on its common stock or acquire for cash any shares of its common stock in excess of \$1,000,000 plus its cumulative consolidated net income, less preferred dividends, after November 30, 1969. At December 31, 1977, consolidated net working capital was \$24,589,000; \$5,639,000 was available for the payment of cash dividends on its common stock and the purchase of shares of its common stock.

The trust indenture underlying the convertible subordinated debentures provides, among other things, that the debentures are redeemable at the Company's option at prices ranging from 103% in 1978 to 100% in 1984, and that sinking fund payments of \$325,000 are required annually with an option to make additional annual payments of \$325,000 without premium; such payments can be reduced by the principal amount of debentures acquired by the Company or converted into common stock. All of the 1978 installments and \$55,000 of the 1979 installments have been satisfied. The debentures are convertible into shares of common stock at a conversion price of \$10.67 per share (subject to non-dilution provisions).

Note 5. Income Taxes

The provision for (benefit from) income taxes consists of:

	<u>1977</u>	<u>1976</u>
Current		
Federal	\$1,533	\$(426)
State	170	(67)
Deferred (principally federal)	291	588
	<u>\$1,994</u>	<u>\$ 95</u>

The income tax effects of significant items which resulted in effective tax rates of 47% and 50% for 1977 and 1976, respectively, follow:

	<u>1977</u>	<u>1976</u>
Income taxes based on 48% of reported income	\$2,035	\$ 91
Increase (decrease) resulting from:		
Investment tax credits	(51)	(7)
Profits of Domestic International Sales Corporation	(58)	(6)
State and other income taxes, less related federal income tax benefits ..	88	7
Other	(20)	10
Income taxes as reported	<u>\$1,994</u>	<u>\$ 95</u>

THE RegO GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Tax law allows or requires the determination of taxable income in a manner different from generally accepted accounting principles. The provision for deferred income taxes resulting from timing differences is comprised of the following:

	<u>1977</u>	<u>1976</u>
Excess of tax over book depreciation	\$ 74	\$ 39
Losses realizable for tax purposes on prior year write down of assets to estimated realizable value	119	401
Inventory reserves	147	359
Product liability reserve	(17)	(83)
Other	(32)	(128)
Deferred income tax provision	<u>\$291</u>	<u>\$588</u>

The 1976 deferred income tax provision (at an effective rate of 50%) has been decreased by \$380,000, with no effect on net income, to reflect the 1975 federal income tax return as filed.

Examinations by the Internal Revenue Service (Service) of the Company's federal income tax returns for the years 1969 through 1972 have been substantially completed. The Service is in the initial stages of an examination of the federal income tax returns for the years 1973 and 1974 but has not progressed sufficiently to form any conclusions relating to matters in such returns. Management believes that adequate allowances have been established for all income tax liabilities relating to the Company. As a member of the GL Corporation (Marmon's parent) consolidated federal income tax group, the Company is contingently liable for federal income taxes attributable to other members of the group. GL has agreed to indemnify the Company against any such liabilities.

Note 6. Pension Plans

The Company has two pension plans covering substantially all employees. The charges to operations for the cost of the pension plans for the years ended December 31, 1977 and 1976 were \$531,000 and \$533,000, respectively.

The unfunded past service cost relating to the above plans was approximately \$3,564,000 at December 31, 1977. The vested benefits exceed the total of the pension fund assets and balance sheet accruals by approximately \$2,127,000 at that date.

Note 7. Contingent Liabilities

The Company is one of thirty-five defendants in a class action filed on October 29, 1973, in the United States District Court for the Southern District of California. The complaint seeks damages and other relief as a result of alleged violations of federal securities laws, illegal loans, improper acts and conspiracy to commit the foregoing acts and fraud. The parties have agreed to a settlement, subject to court approval, which would dismiss the Company from this proceeding. In the opinion of management and general counsel, there will be no material adverse effect to the Company whether or not the settlement is approved.

For all periods through December 31, 1976, the Company has no material exposure for product liability claims. Beginning January 1, 1977 the Company purchased a product liability insurance policy pursuant to which the Company will, in effect, bear the cost of the first \$200,000 of each claim and the next \$400,000 of each claim (up to an aggregate of \$900,000) over and above the first \$200,000 of each claim. A number of product liability claims with respect to 1977 have been asserted and, based upon the Company's historic experience, additional claims might be asserted as such claims are sometimes initiated up to two or more years following an alleged product malfunction. Therefore, in the opinion of management, it is not possible at this time to determine the ultimate effect, if any, of such claims on the Company's consolidated financial position and results of operations, and no provision for possible product liability losses, which losses could be significant, has been made in the accompanying financial statements. This method of accounting is in conformity with Financial Accounting Standard No. 5.

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THE Rego GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 8. Capital Stock

The outstanding preferred stock is entitled to a preferential cumulative annual dividend at the rate of \$1.00 per share. The shares are redeemable at the Company's option at \$37.50 per share plus unpaid cumulative dividends. The preferred stock has liquidation rights over the common stock in any final distribution and is entitled to one vote for each share held.

The outstanding preferred shares are convertible into common shares at the option of the holder at the rate of one and one-half shares of common stock for each preferred share held. This conversion rate is subject to non-dilution provisions.

At December 31, 1977, 1,216,949 shares of authorized but unissued common shares have been reserved as follows: 552,411 shares for conversion of preferred stock; 372,071 shares for conversion of the 7% convertible subordinated debentures (Note 4); and 292,467 shares for exercise of outstanding warrants for the purchase, at \$14.51 per share, of common stock. The warrants expire January 15, 1979.

Note 9. Income (loss) per common share

Primary income per share for 1977 is based on net income and the weighted average number of shares of common stock and common stock equivalents (shares issuable upon the assumed conversion of preferred stock) outstanding during the year. For 1976, primary loss per share was based on net income less preferred dividend requirements and the weighted average number of shares of common stock outstanding as the assumed conversion of preferred stock was anti-dilutive.

Fully diluted income per share for 1977 reflects the assumed conversion of the weighted average number of convertible debentures outstanding during the year and the related interest savings net of tax. For 1976, the assumed conversion of the convertible debentures was anti-dilutive.

Note 10. Related party transactions

Transactions between the Company and its parent, at prices and upon terms determined by the parties, include the following:

	<u>1977</u>	<u>1976</u>
Purchases of raw materials by the Company	\$ 5,285	\$ 4,327
Management fee charged to the Company	116	115
Interest income(1)	411	

- (1) The Company has an informal investment agreement with Marmon whereby a portion of the Company's excess funds (\$8,411,000 at December 31, 1977) is invested by Marmon on behalf of and for the benefit of the Company.

The Company does not have any other material transactions with its parent or other affiliated companies other than certain expenses, including federal income taxes, paid by its parent and charged to the Company which are directly attributable to the Company. The management fee covers certain services, including general management, personnel matters, insurance and pension plan matters, legal, accounting and taxation matters and other similar matters which its parent provides to its divisions, subsidiaries and affiliates.

In December 1976, the Company sold its investments in mining stocks and related assets to a director for \$175,000 resulting in a loss in 1976 of \$135,000. The mining stocks were originally purchased for \$788,000 and were subsequently written down, in 1975, to an estimated realizable value of \$250,000. The write-down was made because, in the opinion of management, the value of the assets underlying these mining stocks had become permanently impaired. The sale was approved by the Company's Board of Directors, with the acquiring director abstaining from voting.

THE RegO GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 11. Industry Information

The Company operates in one industry—products used in the control or regulation of the flow of gases and liquids, a significant portion of which is sold to the petroleum, construction and plumbing industries.

Two customers, in the aggregate, accounted for approximately \$7,100,000 or 21% of total sales in 1977. Export sales in 1977 were in the following geographic areas:

	<u>Sales</u>
Canada	\$1,527
Central and South America	731
Asia and Far East	447
Europe	401
All other	<u>455</u>
	<u>\$3,561</u>

The Company has no foreign operations.

Note 12. Quarterly data (Unaudited)

	<u>Quarter Ended</u>			
	<u>Mar. 31</u>	<u>June 30</u>	<u>Sept. 30</u>	<u>Dec. 31</u>
1977				
Sales	\$7,937	\$9,395	\$7,962	\$9,030
Cost of sales				
As originally reported	6,044	6,735	5,928	
As restated	6,026	6,716	5,908	6,488
Income before income taxes				
As originally reported	624	1,197	706	
As restated	669	1,335	904	1,331
Net income				
As originally reported	312	639	349	
As restated	355	707	479	704
Net income per common share				
Primary				
As originally reported .....	.08	.19	.10	
As restated .....	.09	.22	.14	.22
Fully diluted				
As originally reported .....	.08	.19	.10	
As restated .....	.09	.20	.14	.20
1976				
Sales	\$6,315	\$6,606	\$6,054	\$7,834
Cost of sales	5,055	6,213	4,400	5,950
Income (loss) before income taxes	130	(816)	347	529
Net income (loss)	64	(408)	174	265
Net income (loss) per share				
Primary	(.01)	(.18)	.03	.06
Fully diluted	(.01)	(.18)	.03	.06

The restated amounts shown above for each of the first three quarters in 1977 reflect restatement for (1) the adoption in 1977 of the last-in, first-out (LIFO) method of inventory valuation less under absorption of manufacturing overhead and reduction of the provision for product liability losses, and (2) related income tax effects.

THE RegO GROUP, INC.

FIVE YEAR SUMMARY OF OPERATIONS

(In thousands of dollars except per share data)

The following consolidated summary of operations of The RegO Group, Inc. for the four years ended December 31, 1977 and the year ended November 30, 1973 is not reported upon herein by certified public accountants. This summary should be read in conjunction with the consolidated statements of the Company and the certified public accountants' report with respect thereto, which is qualified as set forth therein for the year ended December 31, 1977, contained elsewhere in this Annual Report to Shareholders.

	Years ended				November
	December 31,				30.
	1977	1976	1975	1974(A)	1973
Continuing operations					
Net sales	\$34,324	\$26,809	\$21,481	\$31,059	\$33,011
Cost of goods sold (Note B)	25,138	21,618	19,308	24,078	23,540
Selling and administrative expenses ...	5,463	5,147	4,808	6,136	5,643
Interest expense	579	601	715	1,162	795
Unusual losses (income) (Note C)			1,907	(10,541)	(1,753)
Other income—net	(1,095)	(747)	(301)	(658)	(338)
	<u>30,085</u>	<u>26,619</u>	<u>26,437</u>	<u>20,177</u>	<u>27,887</u>
Income (loss) before income taxes ...	4,239	190	(4,956)	10,882	5,124
Income tax (provision) benefit	(1,994)	(95)	376	(3,406)	(1,971)
Income (loss) from continuing operations	2,245	95	(4,580)	7,476	3,153
Discontinued operations (Note D)			(735)	(1,915)	48
Net income (loss)	2,245	95	(5,315)	5,561	3,201
Preferred stock dividend requirement	(377)	(381)	(383)	(383)	(385)
Net income (loss) applicable to common stock	<u>\$ 1,868</u>	<u>\$ (286)</u>	<u>\$(5,698)</u>	<u>\$ 5,178</u>	<u>\$ 2,816</u>
Net income (loss) per common share					
Primary					
Continuing operations	\$.68	\$ (.10)	\$ (1.79)	\$ 2.23	\$.94
Net income (loss) .....	.68	(.10)	(2.05)	1.66	.95
Fully diluted					
Continuing operations .....	.65	(.10)	(1.79)	2.03	.88
Net income (loss) .....	.65	(.10)	(2.05)	1.52	.89
Weighted average common shares outstanding					
Primary	3,303	2,781	2,785	3,360	3,365
Fully diluted	3,675	2,781	2,785	3,776	3,793

(A) During 1974, the Company changed its fiscal year-end to December 31 to conform to the year-end of its parent. December 1973 operating results of \$279,000, net of taxes of \$47,000, have been credited directly to retained earnings.

(B) See Note 3 to Notes to Consolidated Financial Statements with respect to the adoption of the LIFO method of inventory valuation in 1977.

(C) The loss in 1975 includes a \$1,178,000 provision for losses incurred in a plant shut-down and a \$729,000 loss resulting from write downs of investments in and advances to various foreign joint ventures. The unusual income in 1974 and 1973 resulted from sales of marketable securities.

(D) Discontinued operations principally reflect the losses on sales of the Company's food service equipment and aerospace components manufacturing businesses.

LS 002636

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

Year 1977 vs. 1976:

Net sales increased 28% primarily due to continued, improved conditions in the LP-gas market and new sales programs. This resulted in increased prices, unit volume and better sales mix.

Gross profit as a percentage of sales increased from 19% in 1976 (after \$1,395,000 for inventory valuation provision) to 27% in 1977 (after \$1,681,000 provision for change to LIFO inventory valuation). This increase relates to increased selling prices, better sales mix to higher margin LP-gas products and improved utilization of production facilities at higher activity levels.

Selling and administrative expenses increased 6% mainly due to increased marketing costs related to higher sales volumes.

Interest expense decreased \$22,000 as a result of the decrease in long-term debt. Other income increased \$348,000 mainly due to increased interest and royalty income in 1977 and the loss on sale of mining stocks and related assets in 1976.

Net income increase of \$2,150,000 can be attributed primarily to improved market conditions in LP-gas, new sales programs, better pricing and increased utilization of production facilities with control over costs related to increased volumes.

Year 1976 vs. 1975:

Net sales increased 25% due principally to a revival of the LP-gas market from its depressed condition in 1975. This provided the basis for price increases, increased unit sales volume and better sales mix.

Gross profit increased as a percentage of sales from 10% in 1975 to 19% in 1976. This increase relates to increased selling prices and better sales mix to higher margin LP-gas equipment.

Selling and administrative expenses increased 7% due principally to increased selling expenses, product liability insurance expense and the addition of the management fee from its parent (Marmon) offset by decreased outside professional services including legal and data processing.

Interest expense decreased by \$114,000 in 1976 as a result of the decrease in long-term debt. 1975 also included \$60,000 of interest related to a bank note repaid in January 1975.

Other income increased \$446,000 principally due to the charge in 1975 of \$538,000 to write down mining stock investments to estimated realizable values.

Net income increase of \$5,410,000 is due to improved operational results in 1976 over 1975 discussed above, and the absence in 1976 of unusual losses incurred in a plant shut-down, write down of foreign joint ventures and discontinued operations.

Fourth Quarter Results:

Comparison of results for the quarters ended December 31, 1977 vs. September 30, 1977

Sales—Increased \$1,068,000 or 13%.

The sales increase reflects the seasonal pattern following plant and customer vacation shut-downs and reduced business activity in the third quarter.

Net income—Increased \$225,000 or 47%.

Increased sales activity allowed better utilization of production facilities and absorption of fixed elements of cost.

Comparison of results for the quarters ended December 31, 1977 vs. December 31, 1976

Sales—Increased \$1,196,000 or 15%.

The effect of improved market conditions in the LP-gas industry with resultant improved pricing and higher unit sales was the primary cause of the higher sales.

Net income—Increased \$439,000 or 166%.

Improved pricing, better sales mix and fuller utilization of facilities all contributed to the improved earnings. Cost levels were controlled in relation to the increased volumes. The net income for the fourth quarter of 1976 was reduced \$228,000 for significant year end adjustments. These adjustments consisted of an inventory valuation provision, product liability losses, loss on sale of a product line and additional health and accident expenses. No similar items were present in 1977.

LS 002638

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

**For the Fiscal Year Ended
December 31, 1978**

**Commission File Number
1-848**

The RegO Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

36-2891460

(I.R.S. Employer
Identification Number)

39 South LaSalle Street, Chicago, Illinois

(Address of principal executive offices)

60603

(Zip Code)

Registrant's telephone number, including area code (312) 372-9500

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
\$1.00 Cumulative Convertible Preferred Stock	Pacific Stock Exchange
Common Stock	Pacific Stock Exchange, Spokane Stock Exchange and Intermountain Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

7% Convertible Subordinated Debentures due January 1, 1990

Title of Class

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the period covered by this report.

Common stock outstanding as of December 31, 1978:

LS 002639

2,671,494 shares

Part I

ITEM 1.

BUSINESS

General Development of Business

There have not been any material changes in the current year in the manner of conducting the business.

Financial Information About Industry Segments

The RegO Group, Inc.'s (the Company) continuing manufacturing operations are, and have been for the last five years, engaged in one industry—the manufacture and sale of pressure regulators and other devices used to control the flow of gases and liquids.

Narrative Description of Business

The Company designs, develops, manufactures and markets pressure regulators, valves and other control equipment for LP-gas and anhydrous ammonia; pressure regulators, cylinder valves, manifolds and other control equipment for compressed gases and gas welding and cutting equipment. The Company also manufactures and markets a line of fittings for use with copper tubing, garden and air hoses. A common characteristic of these products is the control of the flow of gases and liquids under a wide variety of temperatures and pressure extremes.

Raw materials and components used in the manufacturing operations are available from more than one supplier, although certain parts and materials are obtained from a single supplier.

The Company is subject to intense competition from older and larger firms having greater financial resources and from smaller local and regional firms which have advantages deriving from proximity to local markets. Its products are sold principally in the United States through full-time salesmen, distributors and manufacturer's agents. A significant portion of the sales are to the petroleum, construction and plumbing industries. The Company (1) is not required to carry significant amounts of inventories to meet rapid delivery requirements of its customers and (2) extends payment terms to certain customers, principally on export sales.

Research and Development

The dollar amount of expenditures for research and development activities during the last two years was not material.

Major Customers

No one customer accounted for more than 10% of total sales in 1978; however, 25% of its sales were to its five largest customers.

Backlog

As of December 31, 1978, the Company's backlog of orders totaled approximately \$7,000,000, all of which are expected to be filled in 1979. At December 31, 1977, the backlog amounted to approximately \$6,000,000. Backlog amounts are not necessarily indicative of sales for subsequent periods because of the short lead time between receipt of order and delivery.

Environmental Matters

The Company is subject to environmental regulation by federal, state and local authorities. There are no material expenditures required for pollution control equipment under applicable environmental laws.

Employees

The Company had approximately 700 full-time employees at December 31, 1978.

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Financial Information About Foreign and Domestic Operations, Including Export Sales

All of the Company's operations are conducted in the United States. Export sales were in the following geographic areas (in thousands of dollars):

	<u>Sales</u>	
	<u>1978</u>	<u>1977</u>
Canada	\$1,344	\$1,527
Central and South America	822	731
Asia and Far East	758	447
United Kingdom	414	197
Europe	366	401
Africa and Near East	300	258
	<u>\$4,004</u>	<u>\$3,561</u>

ITEM 2.

SUMMARY OF OPERATIONS

The Summary of Operations for the five years ended December 31, 1978 and Management's Discussion and Analysis of Results of Operations appear on pages 13 and 14 of the Company's 1978 Annual Report to Shareholders and are incorporated herein by reference.

ITEM 3.

PROPERTIES

Manufacturing operations are conducted at two Company-owned locations in the Chicago area which have an aggregate of approximately 340,000 square feet of floor space. Two distribution centers (Saddle River, New Jersey and Kansas City, Missouri) with an aggregate of approximately 10,000 square feet are leased on an annual rental basis. In the opinion of management, the facilities are well maintained, substantially utilized and suitable for their intended use.

ITEM 4.

PARENTS AND SUBSIDIARIES

The Marmon Group, Inc. (Marmon), (a subsidiary of GL Corporation, which owns 82% of the voting interest in Marmon), a Delaware corporation located at 39 South LaSalle Street, Chicago, Illinois 60603, owns 78% of the Company's preferred stock and 90% of its common stock, constituting 89% of the outstanding voting stock and is deemed the parent of the Company.

Subsidiaries

Following is a list of all subsidiaries owned by the Company at December 31, 1978, all of which are included in the Company's consolidated financial statements:

<u>Name of Subsidiary</u>	<u>Percentage of Voting Securities Owned</u>	<u>State of Incorporation</u>
RegO Company*	100	Delaware
RegO Distribution Center, Inc.	100	Delaware
4201 W. Peterson Corporation	100	Delaware
RegO International, Inc.	100	Illinois

*On January 27, 1978, the Company's principal operating division (RegO) was transferred to RegO Company, a newly formed subsidiary.

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ITEM 5.**LEGAL PROCEEDINGS**

A number of product liability claims have been asserted against the Company. The Company's business involves the design, manufacture and sale of various regulators, valves and other equipment used in controlling the flow of gases and liquids under a wide variety of temperatures and pressures. The products are often incorporated into other and larger finished products. Given the nature of its products, the Company believes that product liability claims are ordinary routine litigation incidental to its business. Based upon the Company's experience, product liability claims may be asserted up to two or more years following the alleged incident or alleged malfunction.

ITEM 6.**INCREASES AND DECREASES IN OUTSTANDING SECURITIES AND INDEBTEDNESS**

	<u>Number of shares</u>
(A) Cumulative Convertible Preferred Stock	
Balance December 31, 1977	368,274
Purchased during the year	(7,675)
Conversion into common stock	(167)
Balance December 31, 1978	<u>360,432</u>
(B) Common Stock	
Balance December 31, 1977	2,690,644
Purchased during the year	(19,400)
Conversion of preferred stock	250
Balance December 31, 1978	<u>2,671,494</u>
(C) 7% Convertible Subordinated Debentures, due January 1, 1990	
Balance December 31, 1977	<u>\$3,970,000</u>
Purchased during the year	(487,000)
Balance December 31, 1978	<u>\$3,483,000</u>

ITEM 7.**CHANGES IN SECURITIES AND CHANGES IN SECURITY FOR REGISTERED SECURITIES**

None

ITEM 8.**DEFAULTS UPON SENIOR SECURITIES**

None

ITEM 9.**APPROXIMATE NUMBER OF EQUITY SECURITY HOLDERS**

<u>Title of class</u>	<u>Number of record holders as of December 31, 1978</u>
Cumulative Convertible Preferred Stock	566
Common Stock	1,161
7% Convertible Subordinated Debentures, due January 1, 1990	608
Warrants to purchase Common Stock at \$14.51 per share (expired January 15, 1979)	4

ITEM 10.**SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None

LS 002642

ITEM 11.

INDEMNIFICATION OF DIRECTORS AND OFFICERS

The General Corporate Law of the State of Delaware provides authority for the indemnification of directors and officers in the defense of civil and criminal actions. The Bylaws of the Company provide for the indemnifications of directors and officers to the full extent and in the manner permitted by the laws of the State of Delaware. The Company has no insurance with respect to such indemnification.

ITEM 12.

FINANCIAL STATEMENTS, EXHIBITS FILED AND REPORTS ON FORM 8-K

(a) Listed below are the financial statements and exhibits filed as part of this report:

(1) Financial Statements—see page 6.

(2) Exhibit—

(A) Calculation of net income (loss) per common share—see page 9.

(b) No report on Form 8-K was required to be filed during the three months ended December 31, 1978.

Part II

ITEMS 13 THROUGH 15, INCLUSIVE

Information called for by Items 13 through 15, inclusive, in Part II is not filed at this time pursuant to General Instruction H, which permits omission if a definitive proxy statement is filed not later than 120 days after the close of the year.

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SIGNATURES

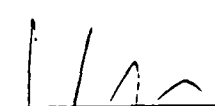
Pursuant to the requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, The RegO Group, Inc. has duly caused this Annual Report to be signed on its behalf by the undersigned thereunto duly authorized.

THE REGO GROUP, INC.
(Registrant)

DATE: March 30, 1979

Robert C. Gluth
Vice-President and Treasurer

DATE: March 30, 1979


Walter S. Rogowski
Secretary and General Counsel

THE RegO GROUP, INC.

**INDEX TO FINANCIAL STATEMENTS
COVERED BY REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

	<u>Reference</u>	
	<u>Form 10-K</u>	<u>Annual report</u>
	<u>(Page)</u>	<u>to shareholders</u>
		<u>(Page)</u>
Report of Certified Public Accountants		3
Data incorporated by reference from attached The RegO Group, Inc. 1978 Annual Report to Shareholders:		
Consolidated balance sheets at December 31, 1978 and 1977		4-5
For the years ended December 31, 1978 and 1977:		
Consolidated statement of income		6
Consolidated statement of shareholders' equity		6
Consolidated statement of changes in financial position		7
Notes to consolidated financial statements		8-12
Consolidated schedules for the years ended December 31, 1978 and 1977:		
V—Property, plant and equipment	7	
VI—Accumulated depreciation, depletion and amortization of property, plant and equipment	7	
XII—Valuation and qualifying accounts and reserves	8	
XVI—Supplementary income statement information	8	

Schedules not included above are omitted as either not applicable or not required or the required information is included in the consolidated financial statements or the notes thereto.

The individual financial statements and schedules of the Company are omitted because the Company is primarily an operating company and all subsidiaries included in the consolidated financial statements being filed are totally-held subsidiaries and, in the aggregate, do not have indebtedness to any person in amounts which exceed 5% of the total assets as shown by the most recent year end consolidated balance sheet.

Those consolidated financial statements listed in the above index, together with the report thereon of Arthur Young & Company dated March 23, 1979, which are included in the Annual Report to Shareholders of The RegO Group, Inc. for the two years ended December 31, 1978 are incorporated herein by reference. All pages of the Company's Annual Report to Shareholders, with the exception of the Letter from the President (page 1), General Information (page 2) and Business Description (page 3), which are not deemed to be filed as part of this annual report, are incorporated elsewhere herein by reference.

LS 002645

THE Rego GROUP, INC.

SCHEDULE V
PROPERTY, PLANT AND EQUIPMENT
(In thousands of dollars)

<u>Classification</u>	<u>Balance at beginning of period</u>	<u>Additions at cost</u>	<u>Retire- ments and sales</u>	<u>Balance at end of period</u>
Year ended December 31, 1978				
Land	\$ 137	\$	\$	\$ 137
Buildings and improvements	2,617	37		2,654
Machinery and equipment	7,691	1,072	149	8,614
	<u>\$10,445</u>	<u>\$ 1,109</u>	<u>\$ 149</u>	<u>\$11,405</u>
Year ended December 31, 1977				
Land	\$ 598	\$	\$ 461(A)	\$ 137
Buildings and improvements	2,995	84	462(A)	2,617
Machinery and equipment	7,229	915	453	7,691
	<u>\$10,822</u>	<u>\$ 999</u>	<u>\$ 1,376</u>	<u>\$10,445</u>

(A) Relates principally to the sale of a regional warehouse facility.

SCHEDULE VI
ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION OF
PROPERTY, PLANT AND EQUIPMENT
(In thousands of dollars)

<u>Classification</u>	<u>Balance at beginning of period</u>	<u>Additions charged to costs and expenses</u>	<u>Retire- ments and sales</u>	<u>Balance at end of period</u>
Year ended December 31, 1978				
Buildings and improvements	\$1,452	\$ 97	\$	\$1,549
Machinery and equipment	4,670	717	136	5,251
	<u>\$6,122</u>	<u>\$ 814</u>	<u>\$ 136</u>	<u>\$6,800</u>
Year ended December 31, 1977				
Buildings and improvements	\$1,442	\$ 136	\$ 126(A)	\$1,452
Machinery and equipment	4,407	693	430	4,670
	<u>\$5,849</u>	<u>\$ 829</u>	<u>\$ 556</u>	<u>\$6,122</u>

(A) Relates principally to the sale of a regional warehouse facility.

LS 002646

THE RegO GROUP, INC.

SCHEDULE XII
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
(In thousands of dollars)

<u>Description</u>	<u>Balance at beginning of period</u>	<u>Additions charged to costs and expenses</u>	<u>Deductions</u>	<u>Balance at end of period</u>
Allowance for doubtful receivables:				
Years ended December 31,				
1978	\$ 120	\$ 108	\$ 131 (A)	\$ 97
1977	\$ 130	\$ 55	\$ 65 (A)	\$ 120
Inventory valuation allowance:				
Years ended December 31,				
1978	\$ 654	\$ 283	\$ 206 (B)	\$ 731
1977	\$ 990	\$ 64	\$ 400 (B)	\$ 654

(A) Write-off of uncollectible accounts, net of recoveries.

(B) Disposals of obsolete inventory.

SCHEDULE XVI
SUPPLEMENTARY INCOME STATEMENT INFORMATION
(In thousands of dollars)

	<u>Years ended December 31,</u>	
	<u>1978</u>	<u>1977</u>
Maintenance and repairs	\$866	\$891
Payroll taxes	856	761

LS 002647

THE Rego GROUP, INC.

CALCULATION OF NET INCOME (LOSS) PER COMMON SHARE

(In thousands, except per share data)

	<u>1978</u>	<u>1977</u>	<u>1976</u>	<u>1975</u>	<u>1974</u>
Shares for computations:					
Weighted average shares outstanding	2,684	2,739	2,781	2,785	2,785
Common stock equivalents—assumed conversion of convertible preferred stock into common(A) (B)		564			575
Common shares for primary income per share	2,684	3,303	2,781	2,785	3,360
Assumed conversion of 7% convertible subordinated debentures(C)	326	372			416
Common shares for fully diluted income per share	<u>3,010</u>	<u>3,675</u>	<u>2,781</u>	<u>2,785</u>	<u>3,776</u>
Net income (loss) for computations:					
Income (loss) from continuing operations ..	\$1,733	\$2,245	\$ 95	\$(4,580)	\$ 7,476
Loss from discontinued operations				(735)	(1,915)
Income (loss) before preferred dividend requirement	1,733	2,245	95	(5,315)	5,561
Less preferred dividend requirement(B)	(366)		(381)	(383)	
Net income (loss) for primary income per share	1,367	2,245	(286)	(5,698)	5,561
Add interest on 7% convertible debentures, net of applicable income taxes(C)	122	148			184
Net income (loss) for fully diluted income per share	<u>\$1,489</u>	<u>\$2,393</u>	<u>\$ (286)</u>	<u>\$(5,698)</u>	<u>\$ 5,745</u>
Net income (loss) per common share:					
Primary					
Income (loss) from continuing operations ..	\$.51	\$.68	\$ (.10)	\$ (1.79)	\$ 2.23
Net income (loss) .....	.51	.68	(.10)	(2.05)	1.66
Fully diluted					
Income (loss) from continuing operations ..	.49	.65	(.10)	(1.79)	2.03
Net income (loss) .....	.49	.65	(.10)	(2.05)	1.52

(A) Yield of the 7% convertible debentures exceeded 66 $\frac{2}{3}$ % of prime rate at date of issue and, therefore, this security is not a common stock equivalent.

(B) Anti-dilutive in 1978, 1976 and 1975. Dilutive, and therefore included in shares for primary income computation, in 1977 and 1974.

(C) Anti-dilutive in 1976 and 1975.

LS 002648

CONSENT OF CERTIFIED PUBLIC ACCOUNTANTS

We consent to the incorporation by reference in this Annual Report on Form 10-K of The RegO Group, Inc. of our report dated March 23, 1979 included in the 1978 Annual Report to Shareholders of The RegO Group, Inc.

We also consent to the addition of the consolidated schedules of The RegO Group, Inc. listed in the accompanying index to financial statements to the statements covered by our report dated March 23, 1979 incorporated herein by reference.

ARTHUR YOUNG & COMPANY

Chicago, Illinois
March 23, 1979

LS 002649

THE *REGO* GROUP, INC.

ANNUAL REPORT 1978

LS 002650

THE RegO GROUP, INC.
1978 ANNUAL REPORT TO SHAREHOLDERS

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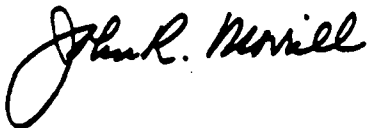
To Our Shareholders

Sales in the year 1978 of \$35,010,000 were up 2% over 1977. Net income in 1978, however, was \$1,733,000 compared to \$2,245,000 in 1977.

The reduction in net income was primarily the result of competitive conditions in the LP-gas market. The company was unable to offset rising costs with adequate price increases.

In other respects, RegO continued to improve its operations. Additional computer controlled cutting equipment and new screw machines have been added in a modernization program of manufacturing facilities. Cost reduction and new design programs were able to partially offset cost increases and are providing increased efficiency and additional competitive capabilities. Sales and distribution has been strengthened in the LP-gas market due to new sales programs and are being expanded in other market areas available to RegO.

Sincerely,



John R. Morrill
President

LS 002652

GENERAL INFORMATION

Officers and Directors

*†R. M. Dunn

Director and Chairman of Executive Committee
Ozark Airlines, Inc., St. Louis, Missouri
Chairman of the Board
Ken-A-Vision Manufacturing Co. (manufacturing)
Kansas City, Missouri

*†W. Featherstone

Mining Engineer
Hayden Lake, Idaho

* R. C. Gluth

Vice President and Treasurer
The RegO Group, Inc.
Executive Vice President
The Marmon Group, Inc.
(diversified manufacturing)

* G. A. Jones

Executive Vice President
The Marmon Group, Inc.
(diversified manufacturing)

*†H. F. Magnuson

Partner
H. F. Magnuson & Company
(Certified Public Accountants)
Wallace, Idaho

*J. R. Morrill

President and Chief Executive Officer
The RegO Group, Inc.

*R. A. Pritzker

President and Treasurer
The Marmon Group, Inc.
(diversified manufacturing)

W. S. Rogowski

Secretary and General Counsel
The RegO Group, Inc.
Vice President and Secretary
The Marmon Group, Inc.
(diversified manufacturing)

*G. P. Smith

Chairman of the Board
The RegO Group, Inc.

D. V. Ytterberg

Vice President
The RegO Group, Inc.

C. D'Ascenzo

Assistant Secretary
The RegO Group, Inc.

*Director of The RegO Group, Inc.

†Member of the Audit Committee.

Capital Stock

The Company's common shares are traded on the Pacific, Spokane and Intermountain Stock Exchanges (symbol: REG). Its preferred stock is traded on the Pacific Stock Exchange (symbol: REG. PR). The Marmon Group, Inc. owns 90% of the Company's common shares and 78% of its preferred shares.

The following table presents the quarterly high and low prices of the Company's common and preferred stock for the past two years as reported by the Pacific Stock Exchange:

	Common		Preferred	
	High	Low	High	Low
1978				
First Quarter	\$5¼	\$4¾	\$15⅞	\$15⅞
Second Quarter	7¼	4¾	17½	15½
Third Quarter	7	6	20	17½
Fourth Quarter	6½	5½	19¾	16½
1977				
First Quarter	3¾	3	14½	13¾
Second Quarter	5	3	15¾	14¼
Third Quarter	4¾	4¼	15¾	14¾
Fourth Quarter	5¼	4	16¼	14¼

No dividends have been paid on common stock during the past two years. A dividend of \$.25 per share was paid in each quarter of 1978 and 1977 on the \$1.00 Cumulative Convertible Preferred Stock.

Transfer Agent & Registrar

American National Bank & Trust Company
33 North LaSalle Street
Chicago, Illinois 60690

Auditors

Arthur Young & Company
One IBM Plaza
Chicago, Illinois 60611

1979 Annual Meeting

The RegO Group, Inc. 1979 annual meeting of shareholders will be at 9:00 A.M. on June 15, 1979, at the offices of the subsidiary, RegO Company, 4201 West Peterson Avenue, Chicago, Illinois 60646.

Form 10-K

A copy of the annual report to the Securities and Exchange Commission on Form 10-K may be obtained from the Company at no expense to the shareholder. Direct your written request to:

Mr. Walter S. Rogowski, Secretary
The RegO Group, Inc.
39 South LaSalle Street
Chicago, Illinois 60603

LS 002653

BUSINESS DESCRIPTION

The RegO Group, Inc. (the Company) is engaged in the manufacture and sale of pressure regulators and other devices (valves, manifolds, fittings and related equipment) used to control the flow of gases and liquids. A significant portion of the sales are to the petroleum, construction and plumbing industries.

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
and Shareholders
The RegO Group, Inc.

We have examined the consolidated balance sheets of The RegO Group, Inc. (the Company) at December 31, 1978 and 1977, and the related consolidated statements of income, shareholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As more fully described in Note 11, the Company has significant purchases of materials from a division of its parent and significant other transactions with its parent.

As more fully described in Note 8, the Company is subject to possible losses relating to uninsured product liability claims. It is not possible at this time to determine the additional losses, if any, that may be incurred, which losses could significantly affect the Company's consolidated financial statements.

In our opinion, subject to the effects, if any, on the consolidated financial statements of the ultimate resolution of the matter discussed in the preceding paragraph, the statements mentioned above present fairly the consolidated financial position of The RegO Group, Inc. at December 31, 1978 and 1977, and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

ARTHUR YOUNG & COMPANY

Chicago, Illinois
March 23, 1979

THE RegO GROUP, INC.
CONSOLIDATED BALANCE SHEET
ASSETS

(In thousands of dollars)

	<u>December 31,</u>	
	<u>1978</u>	<u>1977</u>
Current assets		
Cash (including, in 1977, \$3,000 of certificates of deposit)	\$ 25	\$ 3,294
Investment agreement receivable—parent (Note 11)	14,022	8,411
Commercial paper	100	1,100
Notes and accounts receivable, less allowance for doubtful receivables (1978—\$97; 1977—\$120)	4,766	4,644
Inventories (Note 3)	11,290	12,173
Deferred income taxes (Note 6)	643	521
Other current assets	<u>111</u>	<u>86</u>
Total current assets	30,957	30,229
 Property, plant and equipment (Note 4)		
Land	137	137
Buildings and improvements	2,654	2,617
Machinery and equipment	<u>8,614</u>	<u>7,691</u>
	11,405	10,445
 Less accumulated depreciation	<u>(6,800)</u>	<u>(6,122)</u>
Property, plant and equipment—net	4,605	4,323
 Excess of cost over underlying equity in net assets acquired	3,135	3,135
Other assets	<u>397</u>	<u>434</u>
	<u>\$39,094</u>	<u>\$38,121</u>

See Notes to Consolidated Financial Statements.

THE RegO GROUP, INC.

CONSOLIDATED BALANCE SHEET

LIABILITIES AND SHAREHOLDERS' EQUITY

(In thousands of dollars)

	December 31,	
	1978	1977
Current liabilities		
Accounts payable—trade	\$ 1,711	\$ 1,913
Accounts payable—parent	1,461	1,489
Income taxes (Note 6)	1,075	811
Accrued liabilities (Note 5)	1,749	1,319
Current maturities of long-term debt (Note 4)	119	108
Total current liabilities	6,115	5,640
Long-term debt (Note 4)	5,700	6,307
Deferred income taxes (Note 6)	569	575
Contingent liabilities (Notes 8 and 11)		
Shareholders' equity (Notes 4 and 9)		
Preferred stock—authorized 919,523 shares, \$1.00 par value; issued and outstanding—360,432 shares in 1978 and 368,274 shares in 1977 (re- demption and liquidation value: 1978—\$13,516; 1977—\$13,810)	360	368
Common stock—authorized 7,500,000 shares; \$.01 par value; issued 2,857,360 in 1978 and 2,857,110 shares in 1977	29	29
Other paid-in capital	6,069	6,194
Retained earnings	21,362	19,995
	27,820	26,586
Less common stock in treasury—at cost: 1978—185,866 shares; 1977— 166,466 shares	(1,110)	(987)
Total shareholders' equity	26,710	25,599
	<u>\$39,094</u>	<u>\$38,121</u>

See Notes to Consolidated Financial Statements.

THE RegO GROUP, INC.

CONSOLIDATED STATEMENT OF INCOME

(In thousands of dollars, except per share data)

	<i>Years ended December 31,</i>	
	<u>1978</u>	<u>1977</u>
Revenues		
Net sales	\$35,010	\$34,324
Other income	<u>1,448</u>	<u>1,095</u>
	<u>36,458</u>	<u>35,419</u>
Costs and expenses		
Cost of sales	26,887	25,138
Selling and administrative expense	5,842	5,463
Interest expense	<u>542</u>	<u>579</u>
	<u>33,271</u>	<u>31,180</u>
Income before allocation of income taxes	3,187	4,239
Allocation of income taxes (Note 6)	<u>1,454</u>	<u>1,994</u>
Net income	<u>\$ 1,733</u>	<u>\$ 2,245</u>
Net income per common share (Note 10)		
Primary	<u>\$.51</u>	<u>\$.68</u>
Fully diluted	<u>\$.49</u>	<u>\$.65</u>

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 1978 AND 1977

(In thousands of dollars)

	<u>Preferred stock</u>	<u>Common stock</u>	<u>Other paid-in capital</u>	<u>Retained earnings</u>	<u>Treasury stock</u>	<u>Total</u>
Balance at December 31, 1976	\$381	\$ 774	\$5,648	\$18,127	\$ (569)	\$24,361
Change to par value stock		(745)	745			
Purchases during the year	(13)		(199)		(418)	(630)
Net income				2,245		2,245
Preferred dividends paid				(377)		(377)
Balance at December 31, 1977	<u>368</u>	<u>29</u>	<u>6,194</u>	<u>19,995</u>	<u>(987)</u>	<u>25,599</u>
Purchases during the year	(8)		(125)		(123)	(256)
Net income				1,733		1,733
Preferred dividends paid				(366)		(366)
Balance at December 31, 1978	<u>\$360</u>	<u>\$ 29</u>	<u>\$6,069</u>	<u>\$21,362</u>	<u>\$(1,110)</u>	<u>\$26,710</u>

See Notes to Consolidated Financial Statements.

THE Rego GROUP, INC.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(In thousands of dollars)

	<i>Years ended December 31,</i>	
	<u>1978</u>	<u>1977</u>
Sources of working capital		
Operations		
Net income	\$ 1,733	\$ 2,245
Charges (credit) not involving working capital		
Depreciation	814	829
Deferred income taxes	(6)	57
Other	37	89
Working capital provided from operations	2,578	3,220
Disposition of property, plant and equipment	13	820
Total working capital provided	<u>2,591</u>	<u>4,040</u>
Uses of working capital		
Purchase of property, plant and equipment	1,109	999
Reduction of long-term debt	607	114
Preferred dividends paid	366	377
Purchase of capital stock	256	630
Total working capital used	<u>2,338</u>	<u>2,120</u>
Increase in working capital	<u>\$ 253</u>	<u>\$ 1,920</u>
Changes in Elements of Working Capital		
Increase (decrease) in current assets		
Cash, investment agreement receivable and commercial paper	\$ 1,342	\$ 1,582
Notes and accounts receivable—net	122	140
Inventories	(883)	2,958
Deferred income taxes	122	(1,171)
Other current assets	25	63
	<u>728</u>	<u>3,572</u>
(Increase) decrease in current liabilities		
Accounts payable	230	(978)
Income taxes	(264)	(811)
Accrued liabilities	(430)	147
Current maturities of long-term debt	(11)	(10)
	<u>(475)</u>	<u>(1,652)</u>
Increase in working capital	253	1,920
Working capital at beginning of year	24,589	22,669
Working capital at end of year	<u>\$24,842</u>	<u>\$24,589</u>

See Notes to Consolidated Financial Statements.

THE RegO GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts are in thousands of dollars, except as noted)

Note 1. Organization

On June 17, 1977, the shareholders approved a change in the state of incorporation from Idaho to Delaware by merging Golconda Corporation into The RegO Group, Inc. (the Company) (formerly RegO Company), a wholly-owned Delaware subsidiary. This change had no effect on the consolidated financial statements of the Company. The Marmon Group, Inc. (Marmon) owns 78% of the Company's preferred stock and 90% of its common stock, representing 89% of the outstanding voting stock of the Company.

Note 2. Summary of significant accounting policies

Consolidation—all subsidiaries are consolidated and significant intercompany transactions and balances have been eliminated.

Commercial paper—is carried at cost, which approximates market.

Inventories—are valued at the lower of last-in, first-out (LIFO) cost or market. Market is generally considered to be net realizable value.

Property, plant and equipment—are carried at cost, less accumulated depreciation. Depreciation provisions are determined principally on the straight-line method for assets acquired prior to 1977 and on accelerated methods for subsequent acquisitions.

The estimated lives used in determining depreciation are as follows:

Buildings and improvements	5 to 50 years
Machinery and equipment	5 to 20 years

Expenditures for maintenance and repairs are charged to expense as incurred. Significant renewals and betterments are capitalized. Gains on property dispositions are included in income as realized and provisions are made for possible losses when it is determined that losses are probable.

Deferred income taxes—are provided on non-permanent differences between financial statement and taxable income (see Note 6).

Investment tax credits—are accounted for under the "flow-through" method.

Excess of cost over underlying equity in net assets acquired—the amount shown on the balance sheet arose prior to fiscal year 1971 and is not being amortized because, in the opinion of management, there has been no diminution of value.

Pension plans—current costs are accrued and funded on a current basis; unfunded past service costs are accrued and funded on a thirty-year basis.

Note 3. Inventories

Inventories used in the computation of cost of sales were \$11,290,000, \$12,173,000 and \$9,215,000 in the years 1978, 1977 and 1976, respectively. Inventories valued under the LIFO method were approximately \$2,000,000 less than the current cost of such inventories at December 31, 1978 (\$1,700,000 at December 31, 1977). The classification of inventories by stage of production is not available from the accounting records.

THE RegO GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 4. Long-term debt

Long-term debt is comprised of the following:

	<i>December 31,</i>	
	<u>1978</u>	<u>1977</u>
7% convertible subordinated debentures, due January 1, 1990	\$3,483	\$3,970
10% first mortgage note, payable in monthly installments of \$28,975 including interest, final payment due April 1, 1990	2,336	2,445
	<u>5,819</u>	<u>6,415</u>
Less current maturities	119	108
	<u>\$5,700</u>	<u>\$6,307</u>

The net book value of the property subject to the mortgage at December 31, 1978 was \$910,000.

The aggregate amounts of long-term debt maturing in each of the years 1980-1983 are: \$240,000 in 1980, \$471,000 in 1981, \$486,000 in 1982 and \$502,000 in 1983.

The 7% convertible subordinated debenture agreement contains covenants which provide, among other things, that consolidated working capital is to be maintained at not less than \$10,000,000 and that the Company will not pay cash dividends on its common stock or acquire, for cash, any shares of its common stock in excess of \$1,000,000 plus its cumulative consolidated net income, less preferred dividends and net amounts paid for common stock purchases, after November 30, 1969. At December 31, 1978, \$6,882,000 was available for the payment of cash dividends on common stock and for the purchase of shares of common stock.

The trust indenture underlying the convertible subordinated debentures provides, among other things, that the debentures are redeemable at the Company's option at prices ranging from 102.5% in 1979 to 100% in 1984, and that sinking fund payments of \$325,000 are required annually with an option to make additional annual payments of \$325,000 without premium; such payments can be reduced by the principal amount of debentures acquired by the Company or converted into common stock. All of the 1979 installments and \$217,000 of the 1980 installments have been satisfied. The debentures are convertible into shares of common stock at a conversion price of \$10.67 per share (subject to non-dilution provisions).

Note 5. Accrued liabilities

Accrued liabilities consist of the following:

	<i>December 31,</i>	
	<u>1978</u>	<u>1977</u>
Compensation	\$ 118	\$ 175
Taxes, other than income taxes	176	299
Employee benefits	713	456
Product liability	550	200
Other	192	189
	<u>\$1,749</u>	<u>\$1,319</u>

Note 6. Allocation of income taxes

See Note 11 with respect to the method of determining the allocation of income taxes and the Company's contingent liability for federal income taxes resulting from the Company's inclusion in the consolidated federal income tax return of GL Corporation (GL), Marmon's parent. The allocation of income taxes consists of:

	<u>1978</u>	<u>1977</u>
Current		
Federal	\$1,454	\$1,533
State	128	170
Deferred (principally federal)	(128)	291
	<u>\$1,454</u>	<u>\$1,994</u>

THE Rego GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The effective tax rates of 45.6% and 47.0% for 1978 and 1977, respectively, differed from the statutory federal rate of 48% principally as a result of investment tax credits (\$91,000 and \$51,000 in 1978 and 1977, respectively).

The provision (benefit) for deferred income taxes is comprised of the following:

	<u>1978</u>	<u>1977</u>
Excess of tax over financial statement depreciation	\$ 32	\$ 74
Losses realized for tax purposes on assets previously written down		119
Inventory valuation allowances	(38)	147
Product liability allowances	(175)	(17)
Other—net	<u>53</u>	<u>(32)</u>
Deferred income tax provision (benefit)	<u>\$(128)</u>	<u>\$291</u>

The Internal Revenue Service has substantially completed its examination of the federal income tax returns for the years 1973 and 1974. Management believes that adequate allowances have been established for all income tax liabilities relating to the Company.

Note 7. Pension plans

The Company has two pension plans covering substantially all employees. The charges to operations for the cost of the pension plans for the years ended December 31, 1978 and 1977 were \$524,000 and \$531,000, respectively.

The unfunded past service cost relating to the above plans was approximately \$3,500,000 at December 31, 1978. The vested benefits exceed the total of the pension fund assets and balance sheet accruals by approximately \$2,100,000 at that date.

Note 8. Contingent liabilities

The Company is one of thirty-five defendants in a class action filed on October 29, 1973, in the United States District Court for the Southern District of California. The complaint seeks damages and other relief as a result of alleged violations of federal securities laws, illegal loans, improper acts and conspiracy to commit the foregoing acts and fraud. The parties have agreed to a settlement, subject to court approval, which would dismiss the Company from this proceeding. In the opinion of management and general counsel, there will be no material adverse effect on the Company's consolidated financial statements whether or not the settlement is approved.

The Company does not have a material exposure for product liability claims for periods prior to December 31, 1976. Beginning January 1, 1977, the Company's product liability insurance coverage was modified so that the Company, in effect, will bear the cost of the first \$200,000 of loss on each claim. In addition, the Company will bear the next \$400,000 of loss on each claim up to an aggregate loss for the year of occurrence of \$900,000 (\$500,000 and \$1,000,000 subsequent to September 1, 1978).

A number of product liability claims with respect to 1977 and 1978 have been asserted and, based upon the Company's historical experience, additional claims might be asserted, as such claims are sometimes initiated two or more years following an alleged product malfunction. Allowances have been provided for losses reasonably expected, including a provision of \$350,000 in the fourth quarter of 1978. However, at this time, management cannot determine the additional losses, if any, that may be incurred, but believes such losses could be significant.

THE Rego GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 9. Capital stock

The outstanding preferred stock is entitled to preferential cumulative annual dividends at the rate of \$1.00 per share and is redeemable at the Company's option at \$37.50 per share, plus unpaid cumulative dividends. The preferred stock has liquidation rights over the common stock in any final distribution and is entitled to one vote for each share held.

The outstanding preferred shares are convertible into common shares at the option of the holder at the rate of one and one-half shares of common stock for each preferred share held. This conversion rate is subject to non-dilution provisions.

At December 31, 1978, 1,159,544 shares of authorized but unissued common shares have been reserved as follows: 540,648 shares for conversion of preferred stock; 326,429 shares for conversion of the 7% convertible subordinated debentures (Note 4); and 292,467 shares for exercise of outstanding warrants for the purchase, at \$14.51 per share, of common stock. The warrants expired January 15, 1979.

Note 10. Income per common share

Primary income per share for 1978 is based on net income less preferred dividend requirements and the weighted average number of shares of common stock outstanding (the assumed conversion of preferred stock is anti-dilutive). Primary income per share for 1977 is based on net income and the weighted average number of shares of common stock and common stock equivalents (shares issuable upon the assumed conversion of preferred stock) outstanding during the year.

Fully diluted income per share reflects the assumed conversion of the outstanding convertible debentures, as if the conversion had taken place at the beginning of the year, and the restoration to income of the related interest, net of applicable income taxes.

Note 11. Related party transactions

Transactions between the Company and its parent, at prices and upon terms determined by the parties, include the following:

	<u>1978</u>	<u>1977</u>
Purchases of raw materials from a division of the parent	\$4,372	\$5,285
Management fee charged to the Company(1)	116	116
Interest income(2)	946	411

(1) The management fee covers certain services, including general management, personnel matters, insurance, pension plan, legal, accounting and taxation matters and other similar matters which its parent provides to its divisions, subsidiaries and affiliates.

(2) The Company has an informal investment agreement with Marmon whereby a portion of the Company's excess funds (\$14,022,000 at December 31, 1978 and \$8,411,000 at December 31, 1977) is invested by Marmon on behalf of and for the benefit of the Company.

The Company does not have any other material transactions with its parent or other affiliated companies other than certain expenses and federal income taxes, which are directly attributable to the Company and which are paid by its parent and charged to the Company.

The Company is included in the consolidated federal income tax return of GL. Under the terms of a tax sharing agreement with its parent, federal income taxes are computed as if the Company and its subsidiaries file a separate consolidated return and liabilities are remitted to and benefits and refunds are obtained from the parent on this basis. As a member of the GL consolidated federal income tax group, the Company is contingently liable for federal income taxes attributable to other members of the group. GL has agreed to indemnify the Company against any such liabilities.

THE RegO GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 12. Fourth quarter operations

Net income for the fourth quarter of 1978 was reduced approximately \$450,000 by inventory adjustments. (Also see Note 8.)

Note 13. Industry information

The Company, which does not have foreign operations, operates in one industry—the manufacture and sale of pressure regulators and other devices used to control the flow of gases and liquids. A significant portion of the sales are to the petroleum, construction and plumbing industries.

Five customers, in the aggregate, accounted for approximately \$8,600,000 and \$9,800,000 or 25% and 29% of total sales in 1978 and 1977, respectively. Export sales in 1978 and 1977 were in the following geographic areas:

	Sales	
	1978	1977
Canada	\$1,344	\$1,527
Central and South America	822	731
Asia and Far East	758	447
United Kingdom	414	197
Europe	366	401
Africa and Near East	300	258
	<u>\$4,004</u>	<u>\$3,561</u>

THE RegO GROUP, INC.
FIVE YEAR SUMMARY OF OPERATIONS
(In thousands, except per share data)

The following consolidated summary of operations of The RegO Group, Inc. for the five years ended December 31, 1978 is not reported upon herein by certified public accountants. This summary should be read in conjunction with the consolidated financial statements of the Company and the certified public accountants' report with respect thereto, which is qualified as set forth therein, for the two years ended December 31, 1978, contained elsewhere in this Annual Report to Shareholders.

	Years ended December 31,				
	1978	1977	1976	1975	1974
Continuing operations					
Net sales	\$35,010	\$34,324	\$26,809	\$21,481	\$31,059
Cost of sales (Note A)	26,887	25,138	21,618	19,308	24,078
Selling and administrative expenses	5,842	5,463	5,147	4,808	6,136
Interest expense	542	579	601	715	1,162
Unusual losses (income) (Note B)				1,907	(10,541)
Other income—net	(1,448)	(1,095)	(747)	(301)	(658)
	<u>31,823</u>	<u>30,085</u>	<u>26,619</u>	<u>26,437</u>	<u>20,177</u>
Income (loss) before income taxes	3,187	4,239	190	(4,956)	10,882
Income tax (provision) benefit	(1,454)	(1,994)	(95)	376	(3,406)
Income (loss) from continuing operations	<u>1,733</u>	<u>2,245</u>	<u>95</u>	<u>(4,580)</u>	<u>7,476</u>
Discontinued operations (Note C)				<u>(735)</u>	<u>(1,915)</u>
Net income (loss)	<u>1,733</u>	<u>2,245</u>	<u>95</u>	<u>(5,315)</u>	<u>5,561</u>
Preferred stock dividend requirement	(366)	(377)	(381)	(383)	(383)
Net income (loss) applicable to common stock .	<u>\$ 1,367</u>	<u>\$ 1,868</u>	<u>\$ (286)</u>	<u>\$ (5,698)</u>	<u>\$ 5,178</u>
Net income (loss) per common share					
Primary					
Income (loss) from continuing operations ...	\$.51	\$.68	\$ (.10)	\$ (1.79)	\$ 2.23
Net income (loss) .....	.51	.68	(.10)	(2.05)	1.66
Fully diluted					
Income (loss) from continuing operations ...	.49	.65	(.10)	(1.79)	2.03
Net income (loss) .....	.49	.65	(.10)	(2.05)	1.52
Weighted average common shares outstanding					
Primary	2,684	3,303	2,781	2,785	3,360
Fully diluted	3,010	3,675	2,781	2,785	3,776

Notes:

- (A) The adoption of the LIFO cost method of inventory valuation reduced 1977 net income by \$891,000 or \$.27 per share (\$.24 on a fully diluted basis).
- (B) The 1975 amount includes a \$1,178,000 provision for losses incurred in a plant shut-down and a \$729,000 loss resulting from write downs of investments in and advances to various foreign joint ventures. The unusual income in 1974 resulted from sales of marketable securities.
- (C) Discontinued operations principally reflect the losses on sales of the Company's food service equipment and aerospace components manufacturing businesses.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

Year 1978 vs. 1977

Net sales increased 2%. This is primarily the result of increased prices and new sales programs offset by a decline in sales of LP-gas control equipment.

Gross profit as a percentage of sales was 23% in 1978 compared to 27% in 1977. This decrease is attributed to higher material, labor and other factory costs which could not be fully recovered in higher prices.

Selling and administrative expenses increased 7% primarily due to increased product liability costs.

Other income increased \$353,000 mainly due to increased interest income while interest expense decreased \$37,000 as a result of the decrease in long-term debt.

Net income decreased \$512,000 primarily as a result of a regression in the LP-gas market. In addition, competitive conditions did not allow adequate recovery of increased costs.

Year 1977 vs. 1976

Net sales increased 28% primarily due to continued improved conditions in the LP-gas market and new sales programs. This resulted in increased prices, unit volume and better sales mix.

Gross profit as a percentage of sales increased from 19% in 1976 (after a \$1,395,000 inventory valuation provision) to 27% in 1977 (after a \$1,681,000 provision for change to LIFO inventory valuation). This increase relates to increased selling prices, better sales mix to higher margin LP-gas products and improved utilization of production facilities at higher activity levels.

Selling and administrative expenses increased 6% mainly due to increased marketing costs related to higher sales volumes.

Interest expense decreased \$22,000 as a result of the decrease in long-term debt. Other income increased \$348,000 mainly due to increased interest and royalty income in 1977 and the loss on sale of mining stocks and related assets in 1976.

Net income increase of \$2,150,000 can be attributed primarily to improved market conditions in LP-gas, new sales programs, better pricing and increased utilization of production facilities with control over costs related to increased volumes.

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended
December 31, 1979

Commission File Number
1-848

The RegO Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

36-2891460

(I.R.S. Employer
Identification Number)

39 South LaSalle Street, Chicago, Illinois

(Address of principal executive offices)

60603

(Zip Code)

Registrant's telephone number, including area code (312) 372-9500

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
<u>\$1.00 Cumulative</u> Convertible Preferred Stock	Pacific Stock Exchange
Common Stock	Pacific Stock Exchange, Spokane Stock Exchange and Intermountain Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

7% Convertible Subordinated Debentures due January 1, 1990

Title of Class

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the period covered by this report.

Common stock outstanding as of December 31, 1979:

2,652,003 shares

LS 002666

Part I

ITEM 1.

BUSINESS

General Development of Business

On June 17, 1977, the shareholders approved a change in the state of incorporation from Idaho to Delaware by merging Golconda Corporation into The RegO Group, Inc. (the Company) (formerly RegO Company), a wholly-owned Delaware subsidiary. This change had no effect on the consolidated financial statements of the Company.

There have not been any material changes in the current year in the manner of conducting the business.

Financial Information About Industry Segments

The Company's continuing manufacturing operations are, and have been for the last five years, in one industry—the manufacture and sale of pressure regulators and other devices used to control the flow of gases and liquids.

Narrative Description of Business

The Company designs, develops, manufactures and markets pressure regulators, valves and other control equipment for LP-gas and anhydrous ammonia; pressure regulators, cylinder valves, manifolds and other control equipment for compressed gases; and gas welding and cutting equipment. The Company also manufactures and markets a line of fittings for use with copper tubing, garden and air hoses. A common characteristic of these products is the control of the flow of gases and liquids under a wide variety of temperatures and pressures.

Raw materials and components used in the manufacturing operations are available from more than one supplier, although certain parts and materials are obtained from a single supplier (a related company).

The Company is subject to intense competition from older and larger firms having greater financial resources and from smaller local and regional firms which have advantages deriving from proximity to local markets. Its products are sold principally in the United States through full-time salesmen, distributors and manufacturer's agents. A significant portion of the sales are to the propane, construction and plumbing industries. The Company (1) is not required to carry significant amounts of inventories to meet rapid delivery requirements of its customers and (2) extends payment terms to certain customers, principally on export sales.

Research and Development

The dollar amount of expenditures for research and development activities during the last two years was not material.

Major Customers

The Company did not have sales to any customer in an amount exceeding 10% of consolidated revenues.

Backlog

As of December 31, 1979, the Company's backlog of orders totaled approximately \$9,000,000, all of which is expected to be filled in 1980. At December 31, 1978, the backlog amounted to approximately \$7,000,000. Backlog amounts are not necessarily indicative of sales for subsequent periods because of the short lead time between receipt of order and delivery.

Environmental Matters

The Company is subject to environmental regulation by federal, state and local authorities. There are no material expenditures required for pollution control equipment under applicable environmental laws.

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Employees

The Company had approximately 700 full-time employees at December 31, 1979.

Financial Information About Foreign and Domestic Operations, Including Export Sales

All of the Company's operations are conducted in the United States. Export sales in the following geographic areas were (in thousands of dollars):

	<u>Sales</u>		
	<u>1979</u>	<u>1978</u>	<u>1977</u>
Canada	\$2,473	\$1,344	\$1,527
Central and South America	880	822	731
Asia and Far East	841	758	447
United Kingdom	251	414	197
Europe	454	366	401
Africa and Near East	256	300	258
	<u>\$5,155</u>	<u>\$4,004</u>	<u>\$3,561</u>

ITEM 2.

SUMMARY OF OPERATIONS

The Summary of Operations for the five years ended December 31, 1979 and Management's Discussion and Analysis of Results of Operations appear on pages 12 and 13, respectively, of the Company's 1979 Annual Report to Shareholders and are incorporated herein by reference.

ITEM 3.

PROPERTIES

Manufacturing operations are conducted at two Company owned locations in the Chicago area which have an aggregate of approximately 340,000 square feet of floor space. Two distribution centers (Saddle River, New Jersey and Kansas City, Missouri) with an aggregate of approximately 10,000 square feet are leased on an annual rental basis. In the opinion of management, the facilities are well maintained, substantially utilized and suitable for their intended use.

ITEM 4.

PARENTS AND SUBSIDIARIES

Parents

The Marmon Group, Inc. (Marmon), (a subsidiary of GL Corporation, which owns approximately 82% of the voting interest in Marmon), a Delaware corporation located at 39 South LaSalle Street, Chicago, Illinois 60603, owns 79.1% of the Company's preferred stock and 90.9% of its common stock, constituting 89.5% of the outstanding voting stock and is deemed the parent of the Company.

Subsidiaries

The following is a list of all of the Company's subsidiaries at December 31, 1979, all of which are included in the Company's consolidated financial statements:

<u>Name of Subsidiary</u>	<u>Percentage of Voting Securities Owned</u>	<u>State of Incorporation</u>
RegO Company	100	Delaware
RegO Distribution Center, Inc.	100	Delaware
4201 W. Peterson Corporation	100	Delaware
RegO International, Inc.	100	Illinois

ITEM 5.**LEGAL PROCEEDINGS**

A number of product liability claims have been asserted against the Company. The Company's business involves the design, manufacture and sale of various regulators, valves and other equipment used in controlling the flow of gases and liquids under a wide variety of temperatures and pressures. The products are often incorporated into other and larger finished products. Given the nature of its products, the Company believes that product liability claims are ordinary routine litigation incidental to its business. Based upon the Company's experience, product liability claims may be asserted up to two or more years following the alleged incident or alleged malfunction.

ITEM 6.**INCREASES AND DECREASES IN OUTSTANDING SECURITIES AND INDEBTEDNESS**

	<u>Number of shares</u>
(A) <i>Cumulative Convertible Preferred Stock</i>	
Balance December 31, 1978	360,432
Purchased during the year	(4,494)
Balance December 31, 1979	<u>355,938</u>
(B) <i>Common Stock</i>	
Balance December 31, 1978	2,671,494
Purchased during the year	(19,491)
Balance December 31, 1979	<u>2,652,003</u>
	<u>Face value</u>
(C) <i>7% Convertible Subordinated Debentures, due January 1, 1990</i>	
Balance December 31, 1978	\$3,483,000
Purchased during the year	(231,000)
Balance December 31, 1979	<u>\$3,252,000</u>

ITEM 7.**CHANGES IN SECURITIES AND CHANGES IN SECURITY FOR REGISTERED SECURITIES**

None

ITEM 8.**DEFAULTS UPON SENIOR SECURITIES**

None

ITEM 9.**APPROXIMATE NUMBER OF EQUITY SECURITY HOLDERS**

<u>Title of class</u>	<u>Number of record holders as of December 31, 1979</u>
Cumulative Convertible Preferred Stock	539
Common Stock	1,087
7% Convertible Subordinated Debentures, due January 1, 1990	528

ITEM 10.**SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None

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ITEM 11.

INDEMNIFICATION OF DIRECTORS AND OFFICERS

The General Corporate Law of the State of Delaware provides authority for the indemnification of directors and officers in the defense of civil and criminal actions. The Bylaws of the Company provide for the indemnification of directors and officers to the full extent and in the manner permitted by the laws of the State of Delaware. The Company has no insurance with respect to such indemnification.

ITEM 12.

FINANCIAL STATEMENTS, EXHIBITS FILED AND REPORTS ON FORM 8-K

(a) Listed below are the financial statements and exhibits filed as part of this report:

(1) Financial Statements—see page 6

(2) Exhibit—

(A) Calculation of net income (loss) per common share—see page 9.

(b) No report on Form 8-K was required to be filed during the three months ended December 31, 1979.

Part II

ITEMS 13 THROUGH 15, INCLUSIVE

Information called for by Items 13 through 15, inclusive, in Part II is not filed at this time pursuant to General Instruction H, which permits omission if a definitive proxy statement is filed not later than 120 days after the close of the year.

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SIGNATURES

Pursuant to the requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, The RegO Group, Inc. has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

The RegO Group, Inc.
(Registrant)

DATE: March 27, 1980

ROBERT C. GLUTH
Robert C. Gluth
Vice-President and Treasurer

DATE: March 27, 1980

WALTER S. ROGOWSKI
Walter S. Rogowski
*Secretary and
General Counsel*

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**INDEX TO FINANCIAL STATEMENTS
COVERED BY REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

	Reference
	Form 10-K (Page)
	Annual report to shareholders (Page)
Report of Certified Public Accountants.....	3
Data incorporated by reference from attached The RegO Group, Inc. 1979 Annual Report to Shareholders.	
Consolidated balance sheet at December 31, 1979 and 1978	4-5
For the years ended December 31, 1979 and 1978	
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Consolidated schedules for the years ended December 31, 1979 and 1978	
V—Property, plant and equipment	7
VI—Accumulated depreciation, depletion and amortization of property, plant and equipment	7
XII—Valuation and qualifying accounts and reserves	8
XVI—Supplementary income statement information	8

Schedules not included above are omitted as either not applicable or not required or the required information is included in the consolidated financial statements or the notes thereto.

The individual financial statements and schedules of the Company are omitted because the Company is primarily an operating company and all subsidiaries included in the consolidated financial statements being filed are totally-held subsidiaries and, in the aggregate, do not have indebtedness to any person in amounts which exceed 5% of the total assets as shown by the most recent year end consolidated balance sheet.

Those consolidated financial statements listed in the above index, together with the report thereon of Arthur Young & Company dated March 24, 1980, which are included in the Annual Report to Shareholders of The RegO Group, Inc. for the two years ended December 31, 1979 are incorporated herein by reference. All pages of the Company's Annual Report to Shareholders with the exception of the Letter from the President (page 1), General Information (page 2) and Business Description (page 3), which are not deemed to be filed as part of this annual report, are incorporated elsewhere herein by reference.

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The RagO Group, Inc.

SCHEDULE V
PROPERTY, PLANT AND EQUIPMENT
(In thousands of dollars)

<u>Classification</u>	<u>Balance at beginning of period</u>	<u>Additions at cost</u>	<u>Retire-ments and sales</u>	<u>Balance at end of period</u>
Year ended December 31, 1979				
Land	\$ 137	\$	\$	\$ 137
Buildings and improvements	2,654	7		2,661
Machinery and equipment	8,614	992	149	9,457
	<u>\$11,405</u>	<u>\$ 999</u>	<u>\$ 149</u>	<u>\$12,255</u>
Year ended December 31, 1978				
Land	\$ 137	\$	\$	\$ 137
Buildings and improvements	2,617	37		2,654
Machinery and equipment	7,691	1,072	149	8,614
	<u>\$10,445</u>	<u>\$ 1,109</u>	<u>\$ 149</u>	<u>\$11,405</u>

SCHEDULE VI
ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION OF
PROPERTY, PLANT AND EQUIPMENT
(In thousands of dollars)

<u>Description</u>	<u>Balance at beginning of period</u>	<u>Additions charged to costs and expenses</u>	<u>Retire-ments and sales</u>	<u>Balance at end of period</u>
Year ended December 31, 1979				
Buildings and improvements	\$1,549	\$ 95	\$	\$1,644
Machinery and equipment	5,251	957	146	6,062
	<u>\$6,800</u>	<u>\$1,052</u>	<u>\$ 146</u>	<u>\$7,706</u>
Year ended December 31, 1978				
Buildings and improvements	\$1,452	\$ 97	\$	\$1,549
Machinery and equipment	4,670	717	136	5,251
	<u>\$6,122</u>	<u>\$ 814</u>	<u>\$ 136</u>	<u>\$6,800</u>

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CONSENT OF CERTIFIED PUBLIC ACCOUNTANTS

We consent to the incorporation by reference in this Annual Report on Form 10-K of The RegO Group, Inc. of our report dated March 24, 1980 included in the 1979 Annual Report to Shareholders of The RegO Group, Inc.

We also consent to the addition of the consolidated schedules of The RegO Group, Inc., which are listed in the accompanying index to financial statements, to the statements covered by our report dated March 24, 1980, which is incorporated herein by reference.

ARTHUR YOUNG & COMPANY

Chicago, Illinois
March 24, 1980

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THE REGO GROUP, INC.

ANNUAL REPORT 1979

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The RegO Group, Inc.
1979 ANNUAL REPORT TO SHAREHOLDERS
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To Our Shareholders

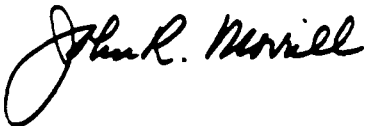
Sales increased 22% in 1979 to \$42,607,000, compared to \$35,010,000 in 1978. Net income for 1979 was \$3,036,000, or 75% higher than 1978 net income of \$1,733,000.

The improved sales were primarily due to a better market for LP-gas products. Prices of propane, the primary LP-gas used in the U.S., makes it an economical fuel for cooking, heating and engines. Production efficiencies and our ongoing programs of cost reduction helped improve our net income.

While it appears that attractive pricing and availability of propane will continue this year, changes in the U.S. energy policies could adversely affect our advantage. The availability of propane, escalating material costs due to inflation, and high interest rates make 1980 results somewhat uncertain.

The management and the employees of The RegO Group, Inc. will continue their efforts to increase sales and improve profitability of your Company.

Sincerely,



John R. Morrill, President

March 24, 1980

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GENERAL INFORMATION

Officers and Directors

- *†W. Featherstone
Mining Engineer
Hayden Lake, Idaho
- * R. C. Gluth
Vice President and Treasurer
The RegO Group, Inc.
Executive Vice President
The Marmon Group, Inc.
(diversified manufacturing)
- * G. A. Jones
Executive Vice President
The Marmon Group, Inc.
(diversified manufacturing)
- *†H. F. Magnuson
Partner
H. F. Magnuson & Company
(Certified Public Accountants)
Wallace, Idaho
- * J. R. Morrill
President and Chief Executive Officer
The RegO Group, Inc.

- *R. A. Pritzker
President and Treasurer
The Marmon Group, Inc.
(diversified manufacturing)
- W. S. Rogowski
Secretary and General Counsel
The RegO Group, Inc.
Vice President, Secretary and General Counsel
The Marmon Group, Inc.
(diversified manufacturing)
- *G. P. Smith
Chairman of the Board
The RegO Group, Inc.
- D. V. Ytterberg
Vice President
The RegO Group, Inc.
- C. D'Ascenzo
Assistant Secretary
The RegO Group, Inc.
- *Director of The RegO Group, Inc.
- †Member of the Audit Committee.

Capital Stock

The RegO Group, Inc.'s (the Company) common shares are traded on the Pacific, Spokane and Intermountain Stock Exchanges (symbol: REG). Its preferred stock is traded on the Pacific Stock Exchange (symbol: REG. PR). The Marmon Group, Inc. owns 90.9% of the Company's common shares and 79.1% of its preferred shares.

The quarterly high and low prices of the Company's common and preferred stock for the past two years as reported by the Pacific Stock Exchange were:

	Common		Preferred	
	High	Low	High	Low
1979				
First Quarter	\$5½	\$5½	\$17½	\$17
Second Quarter	7½	5½	19½	17½
Third Quarter	7	6	19	18½
Fourth Quarter	6¼	4½	17½	17½
1978				
First Quarter	\$5¼	\$4½	\$15½	\$15½
Second Quarter	7¼	4½	17½	15½
Third Quarter	7	6	20	17½
Fourth Quarter	6½	5½	19½	16½

No dividends have been paid on common stock during the past two years. A dividend of \$.25 per share was paid in each quarter of 1979 and 1978 on the \$1.00 Cumulative Convertible Preferred Stock.

Transfer Agent & Registrar

American National Bank & Trust Company
33 North LaSalle Street
Chicago, Illinois 60690

Auditors

Arthur Young & Company
One IBM Plaza
Chicago, Illinois 60611

1979 Annual Meeting

The RegO Group, Inc. 1980 annual meeting of shareholders will be at 9:00 A.M. on June 12, 1980, at the offices of the wholly-owned subsidiary, RegO Company, 4201 West Peterson Avenue, Chicago, Illinois 60646.

Form 10-K

A copy of the Annual Report to the Securities and Exchange Commission on Form 10-K may be obtained from the Company at no expense to the shareholder. Direct your written request to:

Mr. Walter S. Rogowski, Secretary
The RegO Group, Inc.
39 South LaSalle Street
Chicago, Illinois 60603

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BUSINESS DESCRIPTION

The Company is engaged in the manufacture and sale of pressure regulators and other devices (valves, manifolds, fittings and related equipment) used to control the flow of gases and liquids. A significant portion of the sales are to the propane, construction and plumbing industries.

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

*The Board of Directors
and Shareholders
The RegO Group, Inc.*

We have examined the consolidated balance sheets of The RegO Group, Inc. (the Company) at December 31, 1979 and 1978, and the related consolidated statements of income, shareholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As more fully described in Note 7, the Company is subject to possible losses relating to uninsured product liability claims. It is not possible at this time to determine the additional losses, if any, that may be incurred, which, if incurred, could significantly affect the Company's consolidated financial statements.

In our opinion, subject to the effects of such adjustments, if any, as might have been required had the ultimate resolution of the matter discussed in the preceding paragraph been known, the statements mentioned above present fairly the consolidated financial position of The RegO Group, Inc. at December 31, 1979 and 1978, and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

ARTHUR YOUNG & COMPANY

Chicago, Illinois
March 24, 1980

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The RegO Group, Inc.

CONSOLIDATED BALANCE SHEET

ASSETS

(In thousands of dollars)

	December 31,	
	1979	1978
Current assets		
Cash and, in 1978, commercial paper	\$ 1,214	\$ 125
Investment agreement receivable—parent (Note 10)	16,532	14,022
Accounts receivable, less allowance for doubtful receivables (1979—\$114; 1978—\$97)	5,837	4,766
Inventories (Note 2)	9,927	11,290
Deferred income taxes (Note 5)	431	643
Other current assets	421	111
Total current assets	34,362	30,957
Property, plant and equipment (Note 3)		
Land	137	137
Buildings and improvements	2,661	2,654
Machinery and equipment	9,457	8,614
	12,255	11,405
Less accumulated depreciation	7,706	6,800
Property, plant and equipment—net	4,549	4,605
Excess of cost over underlying equity in net assets acquired	3,135	3,135
Other assets	361	397
	<u>\$42,407</u>	<u>\$39,094</u>

See Notes to Consolidated Financial Statements.

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The Rego Group, Inc.

CONSOLIDATED BALANCE SHEET
LIABILITIES AND SHAREHOLDERS' EQUITY

(In thousands of dollars)

	December 31,	
	1979	1978
Current liabilities		
Accounts payable—trade	\$ 1,263	\$ 1,711
Accounts payable—parent	1,664	1,461
Income taxes (Note 5)	1,745	1,075
Accrued liabilities (Note 4)	2,345	1,749
Current maturities of long-term debt (Note 3)	132	119
Total current liabilities	7,149	6,115
Long-term debt (Note 3)	5,338	5,700
Other noncurrent liabilities	192	
Deferred income taxes (Note 5)	547	569
Contingent liabilities (Notes 5 and 7)		
Shareholders' equity (Notes 3 and 8)		
Preferred stock—authorized 919,523 shares, \$1.00 par value; issued and outstanding—355,938 shares in 1979 and 360,432 shares in 1978 (re- demption and liquidation value: 1979—\$13,348; 1978—\$13,516)	356	360
Common stock—authorized 7,500,000 shares; \$.01 par value; issued and outstanding 2,857,360 shares	29	29
Other paid-in capital	5,992	6,069
Retained earnings	24,039	21,362
	30,416	27,820
Less common stock in treasury—at cost: 1979—205,357 shares; 1978— 185,866 shares	1,235	1,110
Total shareholders' equity	29,181	26,710
	<u>\$42,407</u>	<u>\$39,094</u>

See Notes to Consolidated Financial Statements.

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The RegO Group, Inc.

CONSOLIDATED STATEMENT OF INCOME

(In thousands of dollars, except per share data)

	Years ended December 31,	
	1979	1978
Revenues		
Net sales	\$42,607	\$35,010
Other income—principally Interest (Note 10)	2,037	1,448
	<u>44,644</u>	<u>36,458</u>
Costs and expenses		
Cost of sales	31,818	26,887
Selling and administrative expense	6,508	5,842
Interest expense	503	542
	<u>38,829</u>	<u>33,271</u>
Income before allocation of income taxes	5,815	3,187
Allocation of income taxes (Note 5)	2,779	1,454
Net income	<u>\$ 3,036</u>	<u>\$ 1,733</u>
Net income per common share (Note 9)		
Primary	<u>\$.95</u>	<u>\$.51</u>
Fully diluted	<u>\$.90</u>	<u>\$.49</u>

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 1979 AND 1978

(In thousands of dollars)

	Preferred stock	Common stock	Other paid-in capital	Retained earnings	Treasury stock	Total
Balance at December 31, 1977	\$368	\$29	\$6,194	\$19,995	\$ (987)	\$25,599
Purchases during the year	(8)		(125)		(123)	(256)
Net income				1,733		1,733
Preferred dividends paid				(366)		(366)
Balance at December 31, 1978	360	29	6,069	21,362	(1,110)	26,710
Purchases during the year	(4)		(77)		(125)	(206)
Net income				3,036		3,036
Preferred dividends paid				(359)		(359)
Balance at December 31, 1979	<u>\$356</u>	<u>\$29</u>	<u>\$5,992</u>	<u>\$24,039</u>	<u>\$ (1,235)</u>	<u>\$29,181</u>

See Notes to Consolidated Financial Statements.

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The RegO Group, Inc.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(In thousands of dollars)

	<i>Years ended December 31,</i>	
	<u>1979</u>	<u>1978</u>
Sources of working capital		
Operations		
Net income	\$3,036	\$1,733
Charges (credits) not involving working capital		
Depreciation	1,052	814
Deferred income taxes	(22)	(6)
Other noncurrent liabilities	192	
Other	36	37
Working capital provided from operations	<u>4,294</u>	<u>2,578</u>
Disposition of property, plant and equipment	3	13
Total working capital provided	<u>4,297</u>	<u>2,591</u>
Uses of working capital		
Purchase of property, plant and equipment	999	1,109
Reduction of long-term debt	362	607
Payment of preferred dividends	359	366
Purchase of capital stock	206	256
Total working capital used	<u>1,926</u>	<u>2,338</u>
Increase in working capital	<u>\$2,371</u>	<u>\$ 253</u>

Changes in Elements of Working Capital

Increase (decrease) in current assets		
Cash and commercial paper and investment agreement receivable	\$ 3,599	\$ 1,342
Accounts receivable—net	1,071	122
Inventories	(1,363)	(883)
Deferred income taxes	(212)	122
Other current assets	310	25
	<u>3,405</u>	<u>728</u>
(Increase) decrease in current liabilities		
Accounts payable	245	230
Income taxes	(670)	(264)
Accrued liabilities	(596)	(430)
Current maturities of long-term debt	(13)	(11)
	<u>(1,034)</u>	<u>(475)</u>
Increase in working capital	2,371	253
Working capital at beginning of year	24,842	24,589
Working capital at end of year	<u>\$27,213</u>	<u>\$24,842</u>

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts are in thousands of dollars, except as noted)

Note 1. Summary of significant accounting policies

The following is a summary of significant accounting policies of The RegO Group, Inc. (the Company). The Marmon Group, Inc. (Marmon), a subsidiary of GL Corporation (GL), owns 79.1% of the Company's preferred stock and 90.9% of its common stock, representing 89.5% of the outstanding voting interest of the Company.

Consolidation—all subsidiaries are consolidated.

Commercial paper—is carried at cost, which approximates market.

Inventories—are valued at the lower of last-in, first-out (LIFO) cost or market (net realizable value).

Property, plant and equipment—are recorded at cost. Depreciation provisions are determined principally on the straight-line method for assets acquired prior to 1977 and on accelerated methods for subsequent acquisitions.

The estimated lives used in determining depreciation are:

Buildings and improvements	5 to 50 years
Machinery and equipment	5 to 20 years

Expenditures for maintenance and repairs are charged to expense as incurred. Significant renewals and betterments are capitalized. Gains or losses on disposals are included in earnings.

Deferred income taxes—are provided on non-permanent differences between financial statement and taxable income.

Investment tax credits—are accounted for under the flow-through method.

Excess of cost over underlying equity in net assets acquired—the amount shown on the balance sheet arose prior to fiscal year 1971 and is not being amortized because, in the opinion of management, there has been no diminution of value.

Pension costs—are actuarially determined and consist of current service costs, interest on unfunded past service liabilities and amortization of prior service costs over periods not exceeding 30 years (in 1979 principally 10 years). Current service costs and interest are funded as accrued and prior service costs are generally funded over periods of 30 years.

Note 2. Inventories

Inventories used in the computation of cost of sales were \$9,927,000, \$11,290,000 and \$12,173,000 at December 31, 1979, 1978 and 1977, respectively. Inventories valued under the LIFO method were approximately \$2,500,000 less than the current cost of such inventories at December 31, 1979 (\$2,000,000 at December 31, 1978). Reductions in the levels of certain inventories carried at LIFO cost increased 1979 net income by approximately \$170,000 (\$.05 per share—primary and fully diluted). The classification of inventories by stage of production is not available from the accounting records.

Note 3. Long-term debt

Long-term debt is comprised of:

	December 31,	
	1979	1978
7% convertible subordinated debentures, due January 1, 1990	\$3,252	\$3,483
10% first mortgage note, payable in monthly installments of \$28,975 including interest, final payment due April 1, 1990	2,218	2,336
	5,470	5,819
Less current maturities	132	119
	<u>\$5,338</u>	<u>\$5,700</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The 7% convertible subordinated debenture agreement contains covenants which provide, among other things, that consolidated working capital will be maintained at not less than \$10,000,000 and that the Company will not pay cash dividends on its common stock or acquire, for cash, any shares of its common stock in excess of \$1,000,000 plus its cumulative consolidated net income, less preferred dividends and net amounts paid for common stock purchases after November 30, 1969. At December 31, 1979, retained earnings of \$14,609,000 were restricted as to the payment of cash dividends on common stock and the purchase of shares of common stock.

The trust indenture underlying the 7% convertible subordinated debentures provides, among other things, that the debentures are redeemable at the Company's option at prices ranging from 102% in 1980 to 100% in 1984 of the principal amount of the debentures, and that sinking fund payments of \$325,000 are required annually with an option to make additional annual payments of \$325,000 without premium; such payments can be reduced by the principal amount of debentures acquired by the Company or converted into common stock (Note 8). All of the 1980 installment and \$123,000 of the 1981 installment have been satisfied. The debentures are convertible into shares of common stock (subject to nondilution provisions) at a conversion price of \$10.67 per share.

The net book value of the property subject to the 10% first mortgage note was \$825,000 at December 31, 1979.

The aggregate amounts of long-term debt maturing in each of the years 1981-1984 are: \$348,000 in 1981, \$486,000 in 1982, \$502,000 in 1983 and \$521,000 in 1984.

Note 4. Accrued liabilities

	<u>December 31,</u>	
	<u>1979</u>	<u>1978</u>
Compensation	\$ 308	\$ 118
Taxes, other than income taxes	180	176
Employee benefits	1,107	713
Product liability (Note 7)	521	550
Other	229	192
	<u>\$2,345</u>	<u>\$1,749</u>

Note 5. Income taxes

The Company is included in the consolidated federal income tax return of GL and as such is contingently liable for federal income taxes attributable to other members of the GL consolidated federal income tax group. GL has indemnified the Company against any such liability.

Under the terms of a tax sharing agreement with Marmon, federal income taxes are computed as if the Company and its subsidiaries file a separate consolidated return and liabilities are remitted to and benefits and refunds are obtained from Marmon on this basis.

The allocation of income taxes consists of:

	<u>1979</u>	<u>1978</u>
Current		
Federal	\$2,259	\$1,454
State	330	128
Deferred (principally federal)	190	(128)
	<u>\$2,779</u>	<u>\$1,454</u>

The effective tax rates of 47.8% and 45.6% for 1979 and 1978, respectively, differ from the statutory federal rate of 46% in 1979 and 48% in 1978 principally as a result of investment tax credits (\$62,000 and \$91,000 in 1979 and 1978, respectively) and state income taxes net of the federal income tax benefits.

The RegO Group, Inc.

FIVE YEAR SUMMARY OF OPERATIONS

(In thousands, except per share data)

The following consolidated summary of operations of The RegO Group, Inc. for the five years ended December 31, 1979 is not reported upon herein by certified public accountants. This summary should be read in conjunction with the consolidated financial statements of the Company and the certified public accountants' report with respect thereto, which is qualified as set forth therein, contained elsewhere in this Annual Report to Shareholders.

	Years ended December 31,				
	1979	1978	1977	1976	1975
Continuing operations					
Net sales	\$42,607	\$35,010	\$34,324	\$26,809	\$21,481
Other income—net	2,037	1,448	1,095	747	301
	<u>44,644</u>	<u>36,458</u>	<u>35,419</u>	<u>27,556</u>	<u>21,782</u>
Cost of sales	31,818	26,887	25,138	21,618	19,308
Selling and administrative expenses	6,508	5,842	5,463	5,147	4,808
Interest expense	503	542	579	601	715
Unusual loss (Note A)					1,907
	<u>38,829</u>	<u>33,271</u>	<u>31,180</u>	<u>27,366</u>	<u>26,738</u>
Income (loss) before income taxes	5,815	3,187	4,239	190	(4,956)
Income tax (provision) benefit	(2,779)	(1,454)	(1,994)	(95)	376
Income (loss) from continuing operations	3,036	1,733	2,245	95	(4,580)
Discontinued operations (Note B)					(735)
Net income (loss) (Notes C and D)	3,036	1,733	2,245	95	(5,315)
Preferred stock dividend requirement	(359)	(366)	(377)	(381)	(383)
Net income (loss) applicable to common stock ..	<u>\$ 2,677</u>	<u>\$ 1,367</u>	<u>\$ 1,868</u>	<u>\$ (286)</u>	<u>\$ (5,698)</u>
Net income (loss) per common share					
Primary					
Income (loss) from continuing operations ...	\$.95	\$.51	\$.68	\$ (.10)	\$ (1.79)
Net income (loss) .....	.95	.51	.68	(.10)	(2.05)
Fully diluted					
Income (loss) from continuing operations ...	.90	.49	.65	(.10)	(1.79)
Net income (loss) .....	.90	.49	.65	(.10)	(2.05)
Weighted average common shares outstanding					
Primary	3,197	2,684	3,303	2,781	2,785
Fully diluted	3,502	3,010	3,675	2,781	2,785

(A) Consists of a \$1,178,000 provision for losses incurred in a plant shut-down and a \$729,000 loss resulting from write downs of investments in and advances to various foreign joint ventures.

(B) Discontinued operations consists primarily of losses on sales of the Company's food service equipment and aerospace components manufacturing businesses.

(C) The adoption of the LIFO method of inventory valuation reduced 1977 net income by \$891,000 or \$.27 per share (\$.24 on a fully diluted basis).

(D) Reductions in the levels of certain inventories carried at LIFO costs increased 1979 net income by approximately \$170,000 (\$.05 per share—primary and fully diluted).

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF RESULTS OF OPERATIONS**

Year 1979 vs. 1978

Net sales increased 22% due to improved demand, higher unit volume of LP-gas control equipment, increased prices and new sales programs.

Gross profit as a percentage of sales increased from 23% in 1978 to 25% in 1979. This improvement was primarily the result of better sales mix, production efficiencies and liquidation of certain LIFO inventories.

Selling and administrative expenses increased 11% mainly because of increased marketing costs incurred by the new sales programs.

Other income increased \$589,000, primarily as a result of an increase in interest income.

Improved demand, higher unit volume in LP-gas control equipment, production efficiencies, better cost controls, and increased interest income all contributed to an increase in net income of \$1,303,000.

Year 1978 vs. 1977

Net sales increased 2%. This is primarily the result of new sales programs and higher prices, which were somewhat offset by a decline in sales of LP-gas control equipment.

Gross profit as a percentage of sales was 23% in 1978 compared with 27% in 1977. This decrease is attributed to higher material, labor and other factory costs which could not be fully recovered through higher prices.

Selling and administrative expenses increased 7% primarily because of increased product liability costs.

Other income increased \$353,000. This was mainly due to increased interest income. Interest expense decreased \$37,000 primarily as a result of the decrease in long-term debt.

Net income decreased \$512,000 primarily because of a regression in the LP-gas market, and competitive conditions that did not permit adequate recovery of higher costs.

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended
December 31, 1980

Commission File Number
1-848

The RegO Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

36-2891460

(I.R.S. Employer
Identification Number)

39 South LaSalle Street, Chicago, Illinois

(Address of principal executive offices)

60603

(Zip Code)

Registrant's telephone number, including area code (312) 372-9500

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
<u>\$1.00 Cumulative</u> <u>Convertible Preferred Stock</u>	<u>Pacific Stock Exchange</u>
<u>Common Stock</u>	<u>Pacific Stock Exchange, Spokane Stock</u> <u>Exchange and Intermountain Stock Exchange</u>

Securities registered pursuant to Section 12(g) of the Act:

7% Convertible Subordinated Debentures, due January 1, 1990

(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X

No

On February 26, 1981, the aggregate market value of the common stock and preferred stock held by nonaffiliates was \$1,814,000 and \$1,579,000, respectively, and on that date 2,649,204 shares of common stock were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference in the indicated parts of this Form 10-K:

1980 Annual Report to Shareholders

Parts I and II

Definitive Proxy Statement for annual meeting
of shareholders scheduled to be held on June 8, 1981

Part III

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Part I

ITEM 1.

BUSINESS

General Development of Business

On June 17, 1977, the shareholders approved a change in the state of incorporation from Idaho to Delaware by merging Golconda Corporation into The RegO Group, Inc. (the Company) (formerly RegO Company), a wholly-owned Delaware subsidiary.

There have not been any material changes during 1980 in the nature of the business of the Company.

Financial Information About Industry Segments

The Company's operations are in one industry—the manufacture and sale of pressure regulators and other devices used to control the flow of gases and liquids.

Narrative Description of Business

The Company designs, develops, manufactures and markets pressure regulators, valves and other control equipment for LP-gas and anhydrous ammonia; pressure regulators, cylinder valves, manifolds and other control equipment for compressed gases; and gas welding and cutting equipment. The Company also manufactures and markets a line of fittings for use with copper tubing, and garden and air hoses. A common characteristic of these products is the control of the flow of gases and liquids under a wide variety of temperatures and pressures.

Raw materials and components used in the manufacturing operations are available from more than one supplier. Certain parts and materials are obtained from the Company's parent on a competitive basis.

The Company is subject to intense competition from older and larger firms having greater financial resources and from smaller local and regional firms which have advantages deriving from proximity to local markets. Its products are sold principally in the United States through full-time salesmen, distributors and manufacturers' agents. A significant portion of the sales are to the propane, construction and plumbing industries.

Backlog

As of December 31, 1980, the Company's backlog of orders totalled approximately \$8,000,000, all of which is expected to be filled in 1981. At December 31, 1979, the backlog amounted to approximately \$9,000,000. Backlog amounts are not necessarily indicative of sales for subsequent periods because of the short lead time between receipt of order and delivery.

Research and Development

The dollar amount of expenditures for research and development activities during the last three years was not material.

Major Customers

The Company did not have sales to any customer in an amount exceeding 10% of consolidated revenues.

Environmental Matters

The Company is subject to environmental regulation by federal, state and local authorities. There are no material expenditures required for pollution control equipment under applicable environmental laws.

Employees

The Company had approximately 700 full-time employees at December 31, 1980.

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Financial Information About Foreign and Domestic Operations and Export Sales

All of the Company's operations are conducted in the United States. Information concerning export sales which appears in Note 11 of Notes to Consolidated Financial Statements included in the Company's 1980 Annual Report to Shareholders, is incorporated herein by reference.

ITEM 2.**PROPERTIES**

Manufacturing operations are conducted at two Company owned locations in the Chicago area, which have an aggregate of approximately 340,000 square feet of floor space, and a 90,000 square foot Company owned (refinanced under an industrial development revenue bond in 1981) location in North Carolina. Two distribution centers (Saddle River, New Jersey and Kansas City, Missouri) with an aggregate of approximately 10,000 square feet are leased on an annual rental basis. In the opinion of management, the facilities are well maintained, substantially utilized and suitable for their intended use.

ITEM 3.**LEGAL PROCEEDINGS**

A number of product liability claims have been asserted against the Company and, based upon the Company's experience, product liability claims may be asserted two or more years following the alleged incident or alleged malfunction. The Company is subject to possible losses relating to the uninsured portion of such claims. While it is not possible at this time to determine the additional losses, if any, that may be incurred, the Company believes that such additional losses could be material. The Company's business involves the design, manufacture and sale of various regulators, valves and other equipment used in controlling the flow of gases and liquids under a wide variety of temperatures and pressures. The products are often incorporated into other and larger finished products. Given the nature of its products, the Company believes that product liability claims are ordinary routine litigation incidental to its business.

ITEM 4.**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

Information required by this Item 4 will be included in the Company's definitive proxy statement for its annual meeting of shareholders scheduled to be held June 8, 1981. The Company expects to file definitive copies of such proxy statement prior to April 30, 1981, and reference is expressly made thereto for the information incorporated herein by the aforesaid reference.

Part II**ITEM 5.****MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS**

The information required by this Item 5 appears on page 3 of the Company's 1980 Annual Report to Shareholders and is incorporated herein by reference.

ITEM 6.**SELECTED FINANCIAL DATA**

The information required by this Item 6 appears on page 13 of the Company's 1980 Annual Report to Shareholders and is incorporated herein by reference.

ITEM 7.**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The information required by this Item 7 appears on page 13 of the Company's 1980 Annual Report to Shareholders and is incorporated herein by reference.

ITEM 8.**FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Consolidated financial statements of the Company at December 31, 1980 and 1979 and for each of the three years in the period ended December 31, 1980 and the report of certified public ac-

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countants thereon, are incorporated herein by reference from the 1980 Annual Report to Shareholders, pages 4 through 12.

Part III

ITEM 9.

DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information required by this Item 9 will be included in the Company's definitive proxy statement for its annual meeting of shareholders scheduled to be held June 8, 1981. The Company expects to file definitive copies of such proxy statement prior to April 30, 1981, and reference is expressly made thereto for the information incorporated herein by the aforesaid reference.

ITEM 10.

MANAGEMENT REMUNERATION AND TRANSACTIONS

Information required by this Item 10 will be included in the Company's definitive proxy statement for its annual meeting of shareholders scheduled to be held June 8, 1981. The Company expects to file definitive copies of such proxy statement prior to April 30, 1981, and reference is expressly made thereto for the information incorporated herein by the aforesaid reference.

Part IV

ITEM 11.

EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

	<u>Page</u>
(a) (1) Consolidated financial statements	4
(2) Consolidated financial statement schedules	4
(3) Exhibits	9
(b) No report on Form 8-K was required to be filed during the three months ended December 31, 1980.	

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The RegO Group, Inc.

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND
FINANCIAL STATEMENT SCHEDULES**

Item 11(a)

	<u>Form 10-K</u> <u>(Page)</u>	<u>Annual report</u> <u>to shareholders</u> <u>(Page)</u>
Consolidated financial statements		
Consolidated balance sheet at December 31, 1980 and 1979		4-5
For each of the three years in the period ended December 31, 1980		
Consolidated statement of Income		6
Consolidated statement of shareholders' equity		6
Consolidated statement of changes in financial position		7
Notes to consolidated financial statements		8-12
Consolidated financial statement schedules for each of the three years in the period ended December 31, 1980		
V—Property, plant and equipment	5	
VI—Accumulated depreciation, depletion and amortization of property, plant and equipment	5	
VIII—Valuation and qualifying accounts and reserves	6	
X—Supplementary income statement information	6	

Schedules not included above are omitted as either not applicable or not required or the required information is included in the consolidated financial statements or the notes thereto.

The individual financial statements and schedules of the Registrant are omitted because the Registrant is primarily an operating company and all subsidiaries included in the consolidated financial statements being filed are totally-held subsidiaries and, in the aggregate, do not have indebtedness to any person in amounts which exceed 5% of the total assets as shown by the most recent year end consolidated balance sheet.

The consolidated financial statements listed in the above index together with the report thereon of Arthur Young & Company dated March 16, 1981, which are included in The RegO Group, Inc. 1980 Annual Report to Shareholders, are incorporated herein by reference. All pages of the Company's 1980 Annual Report to Shareholders, with the exception of the Letter from the President (page 1) and General Information (page 2) which are not deemed to be filed as part of this annual report, are incorporated elsewhere herein by reference.

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The RegO Group, Inc.

SCHEDULE V
PROPERTY, PLANT AND EQUIPMENT
Years ended December 31, 1980, 1979 and 1978
(In thousands of dollars)

<u>Classification</u>	<u>Balance at beginning of period</u>	<u>Additions at cost</u>	<u>Retirements</u>	<u>Balance at end of period</u>
1980				
Land	\$ 137	\$ 97	\$	\$ 234
Buildings and improvements	2,661	962		3,623
Machinery and equipment	9,457	1,880	458	10,879
	<u>\$12,255</u>	<u>\$ 2,939</u>	<u>\$ 458</u>	<u>\$14,736</u>
1979				
Land	\$ 137	\$	\$	\$ 137
Buildings and improvements	2,654	7		2,661
Machinery and equipment	8,614	992	149	9,457
	<u>\$11,405</u>	<u>\$ 999</u>	<u>\$ 149</u>	<u>\$12,255</u>
1978				
Land	\$ 137	\$	\$	\$ 137
Buildings and improvements	2,617	37		2,654
Machinery and equipment	7,691	1,072	149	8,614
	<u>\$10,445</u>	<u>\$ 1,109</u>	<u>\$ 149</u>	<u>\$11,405</u>

SCHEDULE VI
ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION OF
PROPERTY, PLANT AND EQUIPMENT

Years ended December 31, 1980, 1979 and 1978
(In thousands of dollars)

<u>Description</u>	<u>Balance at beginning of period</u>	<u>Additions charged to costs and expenses</u>	<u>Retirements</u>	<u>Balance at end of period</u>
1980				
Buildings and improvements	\$1,644	\$ 109	\$	\$1,753
Machinery and equipment	6,062	1,062	448	6,676
	<u>\$7,706</u>	<u>\$1,171</u>	<u>\$ 448</u>	<u>\$8,429</u>
1979				
Buildings and improvements	\$1,549	\$ 95	\$	\$1,644
Machinery and equipment	5,251	957	148	6,062
	<u>\$6,800</u>	<u>\$1,052</u>	<u>\$ 148</u>	<u>\$7,706</u>
1978				
Buildings and improvements	\$1,452	\$ 97	\$	\$1,549
Machinery and equipment	4,670	717	136	5,251
	<u>\$6,122</u>	<u>\$ 814</u>	<u>\$ 136</u>	<u>\$6,800</u>

The RegO Group, Inc.

SCHEDULE VIII

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

Years ended December 31, 1980, 1979 and 1978

(In thousands of dollars)

<u>Description</u>	<u>Balance at beginning of period</u>	<u>Additions charged to costs and expenses</u>	<u>Deductions</u>	<u>Balance at end of period</u>
Allowance for doubtful receivables				
1980	\$ 114	\$ 61	\$ 36(A)	\$ 139
1979	\$ 97	\$ 55	\$ 38(A)	\$ 114
1978	\$ 120	\$ 108	\$ 131(A)	\$ 97
Inventory valuation allowance				
1980	\$ 613	\$ 266	\$ 248(B)	\$ 631
1979	\$ 731	\$ 288	\$ 406(B)	\$ 613
1978	\$ 654	\$ 283	\$ 206(B)	\$ 731

(A) Write-off of uncollectible accounts, net of recoveries.

(B) Disposals of obsolete inventory.

SCHEDULE X

SUPPLEMENTARY INCOME STATEMENT INFORMATION

(In thousands of dollars)

	<u>Years ended December 31,</u>		
	<u>1980</u>	<u>1979</u>	<u>1978</u>
Maintenance and repairs	\$1,252	\$1,034	\$866

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CONSENT OF CERTIFIED PUBLIC ACCOUNTANTS

We consent to the incorporation by reference in this Annual Report on Form 10-K of The RegO Group, Inc. of our report dated March 16, 1981 which appears on page 12 of The RegO Group, Inc. 1980 Annual Report to Shareholders.

We also consent to the addition of the consolidated financial statement schedules of The RegO Group, Inc. which are listed in the accompanying index to consolidated financial statements and financial statement schedules (page 4) to the consolidated financial statements covered by our report dated March 16, 1981, which is incorporated herein by reference.

ARTHUR YOUNG & COMPANY

Chicago, Illinois
March 16, 1981

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SIGNATURES

Pursuant to the requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

The RegO Group, Inc.

(Registrant)

/s/

R. C. GLUTH

Robert C. Gluth
Vice-President and Treasurer
March 16, 1981

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/

W. FEATHERSTONE

W. Featherstone
Director
March 16, 1981

/s/

R. C. GLUTH

R. C. Gluth
*Director, Vice President and Treasurer,
Chief Executive Officer and Principal
Accounting Officer*
March 16, 1981

/s/

G. A. JONES

G. A. Jones
Director
March 16, 1981

/s/

H. F. MAGNUSON

H. F. Magnuson
Director
March 16, 1981

/s/

J. R. MORRILL

J. R. Morrill
Director, President and Chief Executive Officer
March 16, 1981

/s/

R. A. PRITZKER

R. A. Pritzker
Director
March 16, 1981

/s/

G. P. SMITH

G. P. Smith
Chairman of the Board
March 16, 1981

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The RegO Group, Inc.

INDEX TO EXHIBITS

Item 11(a)(3)

**Exhibit
Number**

- (3)(a) Certificate of Incorporation and Bylaws—incorporated herein by reference from Notice of Annual Meeting of Shareholders to be held June 17, 1977, dated May 9, 1977
- (3)(b) Certificate of Amendment of Certificate of Incorporation—incorporated herein by reference from Form 10-K for the year ended December 31, 1977
 - (4) 7% Convertible Subordinated Debentures Agreement
 - (11) Calculation of net income per common share
 - (13) 1980 Annual Report to Shareholders included in this Form 10-K
 - (22) Subsidiaries of the registrant

EXHIBIT NUMBER—11

The RegO Group, Inc.

CALCULATION OF NET INCOME PER COMMON SHARE

(In thousands, except per share data)

	<u>1980</u>	<u>1979</u>	<u>1978</u>
Shares for computations			
Weighted average shares outstanding	2,651	2,663	2,684
Common stock equivalents—assumed conversion of convertible preferred stock into common(A)	<u>532</u>	<u>534</u>	
Common shares for primary income per share	3,183	3,197	2,684
Assumed conversion of 7% convertible subordinated debentures(B)	<u>281</u>	<u>305</u>	<u>326</u>
Common shares for fully diluted income per share	<u>3,464</u>	<u>3,502</u>	<u>3,010</u>
Net income for computations			
Net income before preferred dividend requirements	\$3,573	\$3,036	\$1,733
Less preferred dividend requirement(A)			<u>(366)</u>
Net income for primary income per common share	3,573	3,036	1,367
Add interest on 7% convertible debentures, net of applicable income taxes	<u>107</u>	<u>116</u>	<u>122</u>
Net income for fully diluted income per common share	<u>\$3,680</u>	<u>\$3,152</u>	<u>\$1,489</u>
Net income per common share			
Primary	\$ 1.12	\$.95	\$.51
Fully diluted	\$ 1.06	\$.90	\$.49

(A) Dilutive, and therefore included in shares for primary income computation, in 1980 and 1979. Anti-dilutive in 1978.

(B) Yield of the 7% convertible debentures exceeded 66⅔% of prime rate at date of issue, therefore, this security is not a common stock equivalent.

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EXHIBIT NUMBER—22

The RegO Group, Inc.

SUBSIDIARIES OF THE REGISTRANT

December 31, 1980

The following is a list of subsidiaries, all of which are included in the Company's consolidated financial statements, the percentage of voting securities owned by the Company and the state of incorporation of each:

<u>Name of Subsidiary</u>	<u>Percentage of Voting Securities Owned</u>	<u>State of Incorporation</u>
RegO Company	100	Delaware
RegO Distribution Center, Inc	100	Delaware
4201 W. Peterson Corporation	100	Delaware
RegO International, Inc.	100	Illinois

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THE REGO GROUP, INC.

ANNUAL REPORT 1980

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The RegO Group, Inc.
1980 ANNUAL REPORT TO SHAREHOLDERS
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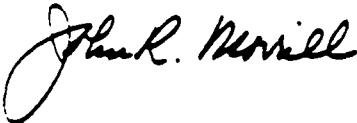
To Our Shareholders

Sales in 1980 increased 8% to \$46,162,000 compared to \$42,607,000 in 1979. Net income for 1980 was \$3,573,000 or 18% greater than 1979 net income of \$3,036,000.

The increase in sales resulted primarily from selective price increases and a modest increase in unit volume of LP-gas products. Pricing policies and cost reduction programs helped to overcome increased material and operating costs, and, together with higher interest income and increased investment tax credits, resulted in an improvement in 1980 net income.

The acquisition of a new plant in North Carolina and continued improvement of operations should allow us to meet the challenges of these uncertain times. The management and employees of The RegO Group, Inc. will continue their efforts to increase the growth and profitability of your Company.

Sincerely,

A handwritten signature in cursive script, reading "John R. Morrill". The signature is written in dark ink and is positioned above the printed name of the signatory.

John R. Morrill, President

March 16, 1981

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GENERAL INFORMATION

OFFICERS AND DIRECTORS

*†W. Featherstone
Mining Engineer
Hayden Lake, Idaho

* R. C. Gluth
Vice President and Treasurer
The RegO Group, Inc.
Executive Vice President
The Marmon Group, Inc.
(diversified manufacturing)

* G. A. Jones
Executive Vice President
The Marmon Group, Inc.
(diversified manufacturing)

*†H. F. Magnuson
Partner
H. F. Magnuson & Company
(Certified Public Accountants)
Wallace, Idaho

* J. R. Morrill
President and Chief Executive Officer
The RegO Group, Inc.

*R. A. Pritzker
President and Treasurer
The Marmon Group, Inc.
(diversified manufacturing)

W. S. Rogowski
Secretary and General Counsel
The RegO Group, Inc.
Vice President, Secretary and General Counsel
The Marmon Group, Inc.
(diversified manufacturing)

*G. P. Smith
Chairman of the Board
The RegO Group, Inc.

D. V. Ytterberg
Vice President
The RegO Group, Inc.

C. D'Ascenzo
Assistant Secretary
The RegO Group, Inc.

*Director of The RegO Group, Inc.

†Member of the Audit Committee

TRANSFER AGENT & REGISTRAR

American National Bank & Trust Company
33 North LaSalle Street
Chicago, Illinois 60690
312-661-5000

AUDITORS

Arthur Young & Company
One IBM Plaza
Chicago, Illinois 60611
312-751-3000

ANNUAL MEETING

The RegO Group, Inc. annual meeting of shareholders will be at 9:00 A.M. on June 8, 1981 at the offices of the Company, 39 South LaSalle Street, Chicago, Illinois 60603.

FORM 10-K

A copy of the Annual Report to the Securities and Exchange Commission on Form 10-K may be obtained from the Company at no expense to the shareholder. Direct your written request to:

Mr. Walter S. Rogowski, Secretary
The RegO Group, Inc.
39 South LaSalle Street
Chicago, Illinois 60603

BUSINESS DESCRIPTION

The Company is engaged in the manufacture and sale of pressure regulators and other devices (valves, manifolds, fittings and related equipment) used to control the flow of gases and liquids. A significant portion of the sales are to the propane, construction and plumbing industries.

LS 002705

CAPITAL STOCK AND RELATED MATTERS

CAPITAL STOCK

Common Stock of The Rego Group, Inc. (the Company) is traded on the Pacific, Spokane and Intermountain Stock Exchanges (symbol: REG). The Company's \$1.00 Cumulative Convertible Preferred Stock is traded on the Pacific Stock Exchange (symbol: REG. PR). The Marmon Group, Inc., 39 South LaSalle Street, Illinois 60603, owns 91.0% of the Company's common shares and 79.4% of its preferred shares.

The quarterly high and low prices of the Company's common and preferred stock for the past two years as reported by the Pacific Stock Exchange were:

	<i>Common</i>		<i>Preferred</i>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
1980				
First Quarter	\$6 $\frac{5}{8}$	\$5 $\frac{1}{8}$	\$19 $\frac{1}{4}$	\$18
Second Quarter	6 $\frac{1}{2}$	5	19 $\frac{7}{8}$	17
Third Quarter	6 $\frac{1}{2}$	6	20	20
Fourth Quarter	7 $\frac{3}{8}$	6 $\frac{1}{4}$	21	20 $\frac{3}{8}$
1979				
First Quarter	\$5 $\frac{7}{8}$	\$5 $\frac{1}{2}$	\$17 $\frac{1}{2}$	\$17
Second Quarter	7 $\frac{5}{8}$	5 $\frac{3}{4}$	19 $\frac{1}{2}$	17 $\frac{3}{4}$
Third Quarter	7	6	19	18 $\frac{7}{8}$
Fourth Quarter	6 $\frac{1}{4}$	4 $\frac{7}{8}$	17 $\frac{1}{8}$	17 $\frac{1}{8}$

No dividends have been paid on common stock during the past two years. A dividend of \$.25 per share was paid in each quarter of 1980 and 1979 on the preferred stock. Information with respect to restrictions on the Company's present or future ability to pay dividends on common stock is included in Note 3 of Notes to Consolidated Financial Statements included herein.

APPROXIMATE NUMBER OF EQUITY SECURITY HOLDERS

<u>TITLE OF CLASS</u>	<u>NUMBER OF RECORD HOLDERS AS OF FEBRUARY 26, 1981</u>
\$1.00 Cumulative Convertible Preferred Stock	501
Common Stock	979
7% Convertible Subordinated Debentures, due January 1, 1990	521

LS 002706

The RegO Group, Inc.
CONSOLIDATED BALANCE SHEET

ASSETS

(In thousands of dollars)

	<i>December 31.</i>	
	<u>1980</u>	<u>1979</u>
Current assets		
Cash	\$ 1,164	\$ 1,214
Investment agreement receivable—parent	17,833	16,532
Accounts receivable, less allowance of \$139 in 1980 and \$114 in 1979 ..	6,239	5,837
Inventories	10,065	9,927
Deferred income taxes	587	431
Other current assets	<u>546</u>	<u>421</u>
Total current assets	36,434	34,362
 Property, plant and equipment		
Land	234	137
Buildings and improvements	3,623	2,661
Machinery and equipment	<u>10,879</u>	<u>9,457</u>
	14,736	12,255
Less accumulated depreciation	<u>8,429</u>	<u>7,706</u>
Property, plant and equipment—net	6,307	4,549
 Excess of cost over underlying equity in net assets acquired	3,135	3,135
Other assets	<u>330</u>	<u>361</u>
	<u>\$46,206</u>	<u>\$42,407</u>

LS 002707

The RegO Group, Inc.

CONSOLIDATED BALANCE SHEET

LIABILITIES AND SHAREHOLDERS' EQUITY

(In thousands of dollars)

	December 31,	
	1980	1979
Current liabilities		
Accounts payable—trade	\$ 1,884	\$ 1,263
Accounts payable—parent	1,499	1,664
Income taxes—principally payable to parent	2,150	1,745
Accrued liabilities	2,350	2,345
Current maturities of long-term debt	145	132
Total current liabilities	8,028	7,149
Long-term debt	4,937	5,338
Other noncurrent liabilities	346	192
Deferred income taxes	541	547
Contingent liabilities, see Note 7		
Shareholders' equity		
\$1.00 Cumulative Convertible Preferred stock—authorized 919,523 shares, issued and outstanding—354,673 shares in 1980 and 355,938 shares in 1979 (redemption and liquidation value: 1980—\$13,300; 1979— \$13,348)	355	356
Common stock—authorized 7,500,000 shares; \$.01 par value; issued 2,857,360 shares	29	29
Other paid-in capital	5,967	5,992
Retained earnings	27,256	24,039
	33,607	30,416
Less common stock in treasury—at cost:		
1980—208,156 shares; 1979—205,357 shares	1,253	1,235
Total shareholders' equity	32,354	29,181
	<u>\$46,206</u>	<u>\$42,407</u>

See Notes to Consolidated Financial Statements.

LS 002708

The RegO Group, Inc.

CONSOLIDATED STATEMENT OF INCOME

(In thousands of dollars, except net income per common share)

	<i>Years ended December 31.</i>		
	<u>1980</u>	<u>1979</u>	<u>1978</u>
Revenues			
Net sales	\$46,162	\$42,607	\$35,010
Other income (principally interest from parent)	<u>3,068</u>	<u>2,037</u>	<u>1,448</u>
	<u>49,230</u>	<u>44,644</u>	<u>36,458</u>
Cost and expenses			
Cost of sales (including purchases from parent of \$7,612, \$4,786 and \$4,372, respectively)	34,163	31,818	26,887
Selling and administrative expense	7,894	6,508	5,842
Interest expense	<u>470</u>	<u>503</u>	<u>542</u>
	<u>42,527</u>	<u>38,829</u>	<u>33,271</u>
Income before allocation of income taxes	6,703	5,815	3,187
Allocation of income taxes from parent	<u>3,130</u>	<u>2,779</u>	<u>1,454</u>
Net income	<u>\$ 3,573</u>	<u>\$ 3,036</u>	<u>\$ 1,733</u>
Net income per common share			
Primary	<u>\$ 1.12</u>	<u>\$.95</u>	<u>\$.51</u>
Fully diluted	<u>\$ 1.06</u>	<u>\$.90</u>	<u>\$.49</u>

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

Years ended December 31, 1980, 1979 and 1978

(In thousands of dollars)

	<i>\$1.00 Cum- ulative Con- vertible Preferred stock</i>	<i>Common stock</i>	<i>Other paid-in capital</i>	<i>Retained earnings</i>	<i>Treasury stock</i>	<i>Total</i>
Balance at December 31, 1977	\$368	\$29	\$6,194	\$19,995	\$ (987)	\$25,599
Purchases during the year	(8)		(125)		(123)	(256)
Net income				1,733		1,733
Preferred dividends paid				(366)		(366)
Balance at December 31, 1978	360	29	6,069	21,362	(1,110)	26,710
Purchases during the year	(4)		(77)		(125)	(206)
Net income				3,036		3,036
Preferred dividends paid				(359)		(359)
Balance at December 31, 1979	356	29	5,992	24,039	(1,235)	29,181
Purchases during the year	(1)		(25)		(18)	(44)
Net income				3,573		3,573
Preferred dividends paid				(356)		(356)
Balance at December 31, 1980	<u>\$355</u>	<u>\$29</u>	<u>\$5,967</u>	<u>\$27,256</u>	<u>\$ (1,253)</u>	<u>\$32,354</u>

See Notes to Consolidated Financial Statements.

The RegO Group, Inc.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(In thousands of dollars)

	Years ended December 31,		
	1980	1979	1978
Sources of working capital			
Operations			
Net income	\$3,573	\$3,036	\$1,733
Charges (credit) not involving working capital			
Depreciation	1,171	1,052	814
Deferred income taxes	(6)	(22)	(6)
Pension	154	192	
Other	31	36	37
Total from operations	4,923	4,294	2,578
Disposition of equipment	10	3	13
Total sources	4,933	4,297	2,591
Dispositions of working capital			
Purchase of property, plant and equipment	2,939	999	1,109
Reduction of long-term debt	401	362	607
Payment of preferred dividends	356	359	366
Purchase of capital stock	44	206	256
Total dispositions	3,740	1,926	2,338
Increase in working capital	\$1,193	\$2,371	\$ 253
Changes in elements of working capital			
Increase (decrease) in current assets			
Cash and investment agreement receivable	\$ 1,251	\$ 3,599	\$ 1,342
Accounts receivable—net	402	1,071	122
Inventories	138	(1,363)	(883)
Deferred income taxes	156	(212)	122
Other current assets	125	310	25
	2,072	3,405	728
(Increase) decrease in current liabilities			
Accounts payable	(456)	245	230
Income taxes	(405)	(670)	(264)
Accrued liabilities	(5)	(596)	(430)
Current maturities of long-term debt	(13)	(13)	(11)
	(879)	(1,034)	(475)
Increase in working capital	1,193	2,371	253
Working capital at beginning of year	27,213	24,842	24,589
Working capital at end of year	\$28,406	\$27,213	\$24,842

See Notes to Consolidated Financial Statements.

LS 002710

The RegO Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts are in thousands of dollars, except per share data)

Note 1. Summary of significant accounting policies

The following is a summary of significant accounting policies of The RegO Group, Inc. (the Company). The Marmon Group, Inc. (Marmon or parent), a subsidiary of GL Corporation (GL), owns 79.4% of the Company's preferred stock and 91.0% of its outstanding common stock, representing 89.6% of the outstanding voting interest of the Company.

Consolidation—all subsidiaries are consolidated.

Inventories—are valued at the lower of last-in, first-out (LIFO) cost or market (net realizable value).

Property, plant and equipment—are recorded at cost. Depreciation provisions are determined principally on the straight-line method for assets acquired prior to 1977 and on accelerated methods for subsequent acquisitions.

The estimated lives used in determining depreciation are:

Buildings and improvements	5 to 50 years
Machinery and equipment	5 to 20 years

Expenditures for maintenance and repairs are charged to expense as incurred. Significant renewals and betterments are capitalized. Gains or losses on disposals are included in earnings.

Deferred income taxes—are provided on nonpermanent differences between financial statement and taxable income.

Investment tax credits—are accounted for under the flow-through method.

Excess of cost over underlying equity in net assets acquired—the amount shown in the balance sheet arose prior to 1971 and is not being amortized because, in the opinion of management, there has been no diminution of value.

Pension costs—are actuarially determined and consist of current service costs, interest on unfunded past service liabilities and amortization of prior service costs principally over 10 years (30 years in 1978). Current service costs and interest on unfunded past service liabilities are funded as accrued and prior service costs are generally funded over 30 years.

Note 2. Inventories

Inventories valued under the LIFO method were approximately \$4,075,000 less than the current cost of such inventories at December 31, 1980 (\$2,500,000 at December 31, 1979). Reductions in the levels of certain inventories carried at LIFO costs increased 1979 net income by approximately \$170,000 (\$.05 per share—primary and fully diluted). The classification of inventories by stage of production is not practicable.

Note 3. Long-term debt

	<u>December 31,</u>	
	<u>1980</u>	<u>1979</u>
7% convertible subordinated debentures, due January 1, 1990	\$2,997	\$3,252
10% first mortgage note, payable in monthly installments of \$28,975 including interest, final payment due April 1, 1990	2,085	2,218
	<u>5,082</u>	<u>5,470</u>
Less current maturities	145	132
	<u>\$4,937</u>	<u>\$5,338</u>

LS 002711

The RegO Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The 7% convertible subordinated debenture agreement contains covenants which provide, among other things, that consolidated working capital will be maintained at not less than \$10,000,000 and that the Company will not pay cash dividends on its common stock or acquire, for cash, any shares of its common stock in excess of \$1,000,000 plus its cumulative consolidated net income, less preferred dividends and net amounts paid for common stock purchases after November 30, 1969. At December 31, 1980, retained earnings of \$14,623,000 were restricted as to the payment of cash dividends on common stock and the purchase of shares of common stock.

The trust indenture underlying the 7% convertible subordinated debentures provides, among other things, that the debentures are redeemable at the Company's option at prices ranging from 101.5% in 1981 to 100% in 1984 of the principal amount of the debentures, and that sinking fund payments of \$325,000 are required annually with an option to make additional annual payments of \$325,000 without premium; such payments can be reduced by the principal amount of debentures acquired by the Company or converted into common stock. All of the 1981 installment and \$53,000 of the 1982 installment have been satisfied. The debentures are convertible into shares of common stock (subject to anti-dilution provisions) at a conversion price of \$10.67 per share.

The net book value of the property subject to the 10% first mortgage note was \$745,000 at December 31, 1980. In September 1980, the Company purchased \$1,050,000 of land and buildings which were refinanced in 1981 through industrial development revenue bonds and became subject to lien.

The aggregate amounts of long-term debt maturing in each of the years 1982-1985 are \$433,000 in 1982, \$503,000 in 1983, \$521,000 in 1984 and \$542,000 in 1985.

Note 4. Accrued liabilities

	<u>December 31.</u>	
	<u>1980</u>	<u>1979</u>
Compensation	\$ 347	\$ 308
Employee benefits	1,081	1,107
Product liability	563	521
Other	359	409
	<u>\$2,350</u>	<u>\$2,345</u>

Note 5. Income taxes

The Company is included in the consolidated federal income tax return of GL and as such is contingently liable for federal income taxes attributable to other members of the GL consolidated federal income tax group. GL has indemnified the Company against any such liability.

Under the terms of a tax sharing agreement with Marmon, federal income taxes are computed as if the Company and its subsidiaries file a separate consolidated return and liabilities are remitted to, and benefits and refunds are obtained from, Marmon on this basis.

The allocation of income taxes consists of:

LS 002712

	<u>1980</u>	<u>1979</u>	<u>1978</u>
Current			
Federal	\$2,854	\$2,259	\$1,454
State	438	330	128
Deferred, principally federal	(162)	190	(128)
	<u>\$3,130</u>	<u>\$2,779</u>	<u>\$1,454</u>

The RegO Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

12. Quarterly Data (unaudited)

	Quarter Ended							
	March 31.		June 30.		September 30.		December 31.	
	1980	1979	1980	1979	1980	1979	1980	1979
Net sales	\$12,023	\$10,679	\$12,118	\$9,995	\$10,728	\$10,820	\$11,293	\$11,113
Gross profit	2,753	2,455	3,093	2,525	2,644	2,863	3,509	2,946
Net income	906	650	835	678	736	677	1,096	1,031
Net income per common share								
Primary .....	.28	.20	.26	.21	.23	.21	.34	.32
Fully diluted .....	.27	.19	.25	.20	.22	.20	.32	.30

Inventory adjustments increased 1980 fourth quarter net income by \$500,000 or \$.16 per share (\$.14 on a fully diluted basis).

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
and Shareholders
The RegO Group, Inc.

We have examined the consolidated balance sheets of The RegO Group, Inc. (the Company) at December 31, 1980 and 1979, and the related consolidated statements of income, shareholders' equity and changes in financial position for each of the three years in the period ended December 31, 1980. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 7, the Company is subject to possible losses relating to uninsured product liability claims. It is not possible at this time to determine the additional losses, if any, that may be incurred.

In our opinion, subject to the effects of such adjustments, if any, as might have been required had the ultimate resolution of the matter discussed in the preceding paragraph been known, the statements mentioned above present fairly the consolidated financial position of The RegO Group, Inc. at December 31, 1980 and 1979, and the consolidated results of operations and changes in financial position for each of the three years in the period ended December 31, 1980, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

ARTHUR YOUNG & COMPANY

Chicago, Illinois
March 16, 1981

LS 002713

SELECTED FINANCIAL DATA

(In thousands of dollars, except per share data)

Years ended December 31.

	1980	1979	1978	1977	1976
Net sales	\$46,162	\$42,607	\$35,010	\$34,324	\$26,809
Net income (Notes A and B)	3,573	3,036	1,733	2,245	95
Net income (loss) per share					
Primary	1.12	.95	.51	.68	(.10)
Fully diluted	1.06	.90	.49	.65	(.10)
Cash dividends per common share	—	—	—	—	—
Total assets	46,206	42,407	39,094	38,121	35,288
Long-term debt	4,937	5,338	5,700	6,307	6,421

(A) Reductions in the levels of certain inventories carried at LIFO costs increased 1979 net income by approximately \$170,000 (\$.05 per share—primary and fully diluted).

(B) The adoption of the LIFO method of inventory valuation reduced 1977 net income by \$891,000 or \$.27 per share (\$.24 on a fully diluted basis).

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

1980 vs. 1979

Working capital increased 4% or \$1,193,000. Accounts receivable increased primarily due to higher selling prices, although the number of days sales outstanding in accounts receivable decreased slightly. Inventories and accounts payable-trade increased due to higher costs of raw materials. Inventory turnover increased as a result of increased unit volume while maintaining controlled inventory levels.

In September 1980, the Company purchased land and a building in North Carolina for the manufacture of small valves and regulators. This facility was refinanced through the issuance of \$5,000,000 of industrial development revenue bonds in early 1981.

Net sales increased 8% for all of 1980. Gains were made in the first half of 1980 from higher unit volume of liquified petroleum gas (LPG) products. However, demand returned to 1979 levels during the second half of 1980. Selling price increases initiated during the second quarter were partially offset by selective discounting of selling prices of brass fittings later in the year.

Gross profit as a percentage of sales increased slightly from 25% to 26% as higher raw material costs were offset by increased volume and selling prices, which in turn were offset somewhat by selective price discounting.

Selling and administrative costs increased, reflecting higher litigation and insurance costs for product liability and preoperating costs at the new facility in North Carolina.

Increased interest income reflects the high interest rates in effect throughout much of 1980.

The effective income tax rate decreased primarily as a result of increased investment tax credits.

Order backlog at the end of the year dropped 11%, reflecting lower customer demand resulting from general economic conditions.

Management programs to lessen the effects of inflation consist of selective price increases to the extent allowed by competition, upgrading of production facilities to achieve greater efficiency and cost reduction programs.

1979 vs. 1978

Working capital increased 10% or \$2,371,000, reflecting the improved demand and higher unit volume in LPG control equipment. Inventories decreased 12% reflecting the continued emphasis on inventory control. Accounts receivable increased 22% reflecting increased net sales.

Net sales increased 22% primarily due to higher unit volume of LPG control equipment, increased prices and new sales programs.

Gross profit as a percentage of sales increased from 23% in 1978 to 25% in 1979. This improvement was primarily the result of better sales mix, improved utilization of production facilities and liquidation of certain LIFO inventories, resulting in an increase of approximately \$325,000 in 1979 gross profit.

Other income increased \$589,000, primarily as a result of an increase in interest income.

LS 002715

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934For the Fiscal Year Ended
December 31, 1981Commission File Number
1-848**The RegO Group, Inc.**

(Exact name of registrant as specified in its charter)

Delaware(State or other jurisdiction of
incorporation or organization)36-2881460(I.R.S. Employer
Identification Number)39 South LaSalle Street, Chicago, Illinois
(Address of principal executive offices)60603
(Zip Code)Registrant's telephone number, including area code (312) 372-9500

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class
\$1.00 Cumulative
Convertible Preferred StockName of Each Exchange on Which Registered

Pacific Stock Exchange

Common Stock

Pacific Stock Exchange, Spokane Stock
Exchange and Intermountain Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

7% Convertible Subordinated Debentures, due January 1, 1990
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

On February 25, 1982, the aggregate market value of the common stock and preferred stock held by nonaffiliates was \$1,333,000 and \$1,328,000, respectively, and on that date 2,608,828 shares of common stock were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Information from the following documents is incorporated by reference in the indicated parts of this Form 10-K:

1981 Annual Report to Shareholders

Parts I, II and IV

Definitive Proxy Statement for annual meeting
of shareholders scheduled to be held
on June 14, 1982.

Parts I and III

LS 002716

Part I

ITEM 1. BUSINESS

General Development of Business

On June 17, 1977, the shareholders approved a change in the state of incorporation from Idaho to Delaware by merging Golconda Corporation into The RegO Group, Inc. (the Company) (formerly RegO Company), a wholly-owned Delaware subsidiary.

There have not been any material changes during 1981 in the nature of the business of the Company.

Financial Information About Industry Segments

The Company's operations are in one industry—the manufacture and sale of pressure regulators and other devices used to control the flow of gases and liquids.

Narrative Description of Business

The Company designs, develops, manufactures and markets pressure regulators, valves and other control equipment for LP-gas and anhydrous ammonia; pressure regulators, cylinder valves, manifolds and other control equipment for compressed gases; and gas welding and cutting equipment. The Company also manufactures and markets a line of fittings for use with copper tubing, and garden and air hoses. A common characteristic of these products is the control of the flow of gases and liquids under a wide variety of temperatures and pressures.

Raw materials and components used in the manufacturing operations are available from more than one supplier. Certain parts and materials are obtained from the Company's parent on a competitive basis.

The Company is subject to intense competition from older and larger firms having greater financial resources and from smaller local and regional firms which have advantages deriving from proximity to local markets. Its products are sold principally in the United States through full-time salesmen, distributors and manufacturers' agents. A significant portion of the sales are to the propane, construction and plumbing industries.

Backlog

As of December 31, 1981, the Company's backlog of orders totalled approximately \$8,100,000, all of which is expected to be filled in 1982. At December 31, 1980, the backlog amounted to approximately \$8,000,000. Backlog amounts are not necessarily indicative of sales for subsequent periods because of the short lead time between receipt of order and delivery.

Research and Development

The dollar amount of expenditures for research and development activities during the last three years was not material.

Major Customers

The Company did not have sales to any customer in an amount exceeding 10% of consolidated revenues.

Environmental Matters

The Company is subject to environmental regulation by federal, state and local authorities. There are no material expenditures required for pollution control equipment under applicable environmental laws.

Employees

The Company had approximately 700 full-time employees at December 31, 1981.

Financial Information About Foreign and Domestic Operations and Export Sales

All of the Company's operations are conducted in the United States. Information concerning export sales appears in Note 11 of Notes to Consolidated Financial Statements included in the Company's 1981 Annual Report to Shareholders and is incorporated herein by reference.

ITEM 2.

PROPERTIES

Manufacturing operations are conducted at two Company owned locations in the Chicago area, which have an aggregate of approximately 340,000 square feet of floor space, and a 90,000 square foot facility, subject to a capitalized lease, located in North Carolina. Two distribution centers (Saddle River, New Jersey and Kansas City, Missouri) with an aggregate of approximately 10,000 square feet and two warehouses with an aggregate of approximately 7,000 square feet are leased on an annual rental basis. In the opinion of management, these facilities are well maintained, substantially utilized and suitable for their intended use.

LS 002717

ITEM 3.**LEGAL PROCEEDINGS**

A number of product liability claims have been asserted against the Company and, based upon the Company's experience, product liability claims may be asserted two or more years following the alleged incident or alleged malfunction. The Company is subject to possible losses relating to the uninsured portion of such claims. While it is not possible at this time to determine the additional losses, if any, that may be incurred, the Company believes that such additional losses could be material. The Company's business involves the design, manufacture and sale of various regulators, valves and other equipment used in controlling the flow of gases and liquids under a wide variety of temperatures and pressures. The products are often incorporated into other and larger finished products. Given the nature of its products, the Company believes that product liability claims are ordinary routine litigation incidental to its business.

ITEM 4.**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

Information required by Item 4 will be included in the Company's definitive proxy statement for its annual meeting of shareholders scheduled to be held June 14, 1982. The Company expects to file definitive copies of such proxy statement prior to April 30, 1982, and reference is expressly made thereto for the information incorporated herein by the aforesaid reference.

Part II**ITEM 5.****MARKET FOR THE REGISTRANT'S COMMON STOCK AND
RELATED SECURITY HOLDER MATTERS**

Information required by Item 5 appears on page 3 of the Company's 1981 Annual Report to Shareholders and is incorporated herein by reference.

ITEM 6.**SELECTED FINANCIAL DATA**

Information required by Item 6 appears on page 13 of the Company's 1981 Annual Report to Shareholders and is incorporated herein by reference.

ITEM 7.**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS**

Information required by Item 7 appears on page 13 of the Company's 1981 Annual Report to Shareholders and is incorporated herein by reference.

ITEM 8.**FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Consolidated financial statements of the Company at December 31, 1981 and 1980 and for each of the three years in the period ended December 31, 1981, and the report of certified public accountants thereon, are incorporated herein by reference to the 1981 Annual Report to Shareholders, pages 4 through 12.

Part III**ITEM 9.****DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

Information required by Item 9 will be included in the Company's definitive proxy statement for its annual meeting of shareholders scheduled to be held June 14, 1982. The Company expects to file definitive copies of such proxy statement prior to April 30, 1982, and reference is expressly made thereto for the information incorporated herein by the aforesaid reference.

ITEM 10.**MANAGEMENT REMUNERATION AND TRANSACTIONS**

Information required by Item 10 will be included in the Company's definitive proxy statement for its annual meeting of shareholders scheduled to be held June 14, 1982. The Company expects to file definitive copies of such proxy statement prior to April 30, 1982, and reference is expressly made thereto for the information incorporated herein by the aforesaid reference.

Part IV

ITEM 11.

EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

	<u>Page</u>
(a)(1) Consolidated financial statements	4
(2) Consolidated financial statement schedules	4
(3) Exhibits	8
(b) No report on Form 8-K was required to be filed during the three months ended December 31, 1981.	

LS 002719

The RegO Group, Inc.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND
FINANCIAL STATEMENT SCHEDULES

Item 11(a)

	<u>Form 10-K</u> <u>(Page)</u>	<u>Annual report</u> <u>to shareholders</u> <u>(Page)</u>
Consolidated financial statements		
Consolidated balance sheet at December 31, 1981 and 1980		4-5
For each of the three years in the period ended December 31, 1981		
Consolidated statement of income		6
Consolidated statement of shareholders' equity		6
Consolidated statement of changes in financial position		7
Notes to consolidated financial statements		8-11
Consolidated financial statement schedules for each of the three years in the period ended December 31, 1981		
VIII—Valuation and qualifying accounts and reserves	5	
X—Supplementary income statement information	5	

Schedules not included above are omitted as either not applicable or not required or the required information is included in the consolidated financial statements or the notes thereto.

The consolidated financial statements listed in the above index together with the report thereon of Arthur Young & Company dated March 17, 1982, which are included in The RegO Group, Inc. 1981 Annual Report to Shareholders are incorporated elsewhere herein by reference.

LS 002720

The RegO Group, Inc.

SCHEDULE VIII

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

Years ended December 31, 1981, 1980 and 1979

(In thousands of dollars)

<u>Description</u>	<u>Balance at beginning of period</u>	<u>Additions charged to costs and expenses</u>	<u>Deductions</u>	<u>Balance at end of period</u>
Allowance for doubtful receivables				
1981	<u>\$ 139</u>	<u>\$ 8</u>	<u>\$ 16(A)</u>	<u>\$ 131</u>
1980	<u>\$ 114</u>	<u>\$ 61</u>	<u>\$ 36(A)</u>	<u>\$ 139</u>
1979	<u>\$ 97</u>	<u>\$ 55</u>	<u>\$ 38(A)</u>	<u>\$ 114</u>
Inventory valuation allowance				
1981	<u>\$ 631</u>	<u>\$ 100</u>	<u>\$ 404(B)</u>	<u>\$ 327</u>
1980	<u>\$ 613</u>	<u>\$ 266</u>	<u>\$ 248(B)</u>	<u>\$ 631</u>
1979	<u>\$ 731</u>	<u>\$ 288</u>	<u>\$ 406(B)</u>	<u>\$ 613</u>

(A) Write-off of uncollectible accounts, net of recoveries.

(B) Disposals of obsolete inventory.

SCHEDULE X

SUPPLEMENTARY INCOME STATEMENT INFORMATION

(In thousands of dollars)

	<u>Years ended December 31,</u>		
	<u>1981</u>	<u>1980</u>	<u>1979</u>
Maintenance and repairs	<u>\$1,571</u>	<u>\$1,252</u>	<u>\$1,034</u>

LS 002721

CONSENT OF CERTIFIED PUBLIC ACCOUNTANTS

We consent to the incorporation by reference in this Annual Report on Form 10-K of The RegO Group, Inc. of our report dated March 17, 1982 which appears on page 12 of The RegO Group, Inc. 1981 Annual Report to Shareholders.

We also consent to the addition of the consolidated financial statement schedules of The RegO Group, Inc., which are listed in the accompanying index to consolidated financial statements and financial statement schedules (page 4), to the consolidated financial statements covered by our report dated March 17, 1982, which is incorporated herein by reference.

ARTHUR YOUNG & COMPANY

Chicago, Illinois
March 17, 1982

LS 002722

SIGNATURES

Pursuant to the requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

The RegO Group, Inc.
(Registrant)

/s/ _____
R. C. GLUTH
R. C. Gluth
Vice President and Treasurer
March 26, 1982

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ _____
W. FEATHERSTONE
W. Featherstone
Director
March 26, 1982

/s/ _____
R. C. GLUTH
R. C. Gluth
Director, Vice President and Treasurer,
and Principal Accounting Officer
March 26, 1982

/s/ _____
G. A. JONES
G. A. Jones
Director
March 26, 1982

/s/ _____
H. F. MAGNUSON
H. F. Magnuson
Director
March 26, 1982

/s/ _____
J. R. MORRILL
J. R. Morrill
Director, President and Chief Executive Officer
March 26, 1982

/s/ _____
R. A. PRITZKER
R. A. Pritzker
Director
March 26, 1982

/s/ _____
G. P. SMITH
G. P. Smith
Chairman of the Board
March 26, 1982

LS 002723

The RegO Group, Inc.

INDEX TO EXHIBITS

Item 11(a)(3)

**Exhibit
Number**

- (3) (a) Certificate of Incorporation and Bylaws—incorporated herein by reference to Notice of Annual Meeting of Shareholders held on June 17, 1977
- (3) (b) Certificate of Amendment of Certificate of Incorporation—incorporated herein by reference to Form 10-K, Exhibit C, for the year ended December 31, 1977
- (4) 7% Convertible Subordinated Debentures Agreement—incorporated herein by reference to Form 10-K for the year ended December 31, 1980
- (11) Calculation of net income per common share
- (13) 1981 Annual Report to Shareholders. With the exception of the information incorporated by reference into Items 1, 5, 6, 7 and 8 of this Form 10-K, the 1981 Annual Report to Shareholders is not deemed filed as part of this report.
- (22) Subsidiaries of the Registrant

EXHIBIT NUMBER—11

The RegO Group, Inc.

CALCULATION OF NET INCOME PER COMMON SHARE

(In thousands, except per share data)

	<u>1981</u>	<u>1980</u>	<u>1979</u>
Shares for computations			
Weighted average shares outstanding	2,643	2,651	2,663
Common stock equivalents—assumed conversion of convertible preferred stock into common	<u>532</u>	<u>532</u>	<u>534</u>
Common shares for primary income per share	3,175	3,183	3,197
Assumed conversion of 7% convertible subordinated debentures	<u>268</u>	<u>281</u>	<u>305</u>
Common shares for fully diluted income per share	<u><u>3,443</u></u>	<u><u>3,464</u></u>	<u><u>3,502</u></u>
Net income for computations			
Net income for primary income per common share	\$3,398	\$3,573	\$3,036
Add interest on 7% convertible debentures, net of applicable income taxes ...	<u>118</u>	<u>107</u>	<u>116</u>
Net income for fully diluted income per common share	<u><u>\$3,516</u></u>	<u><u>\$3,680</u></u>	<u><u>\$3,152</u></u>
Net income per common share			
Primary	\$ 1.07	\$ 1.12	\$.95
Fully diluted	\$ 1.02	\$ 1.06	\$.90

LS 002725

EXHIBIT NUMBER—22

The RegO Group, Inc.

SUBSIDIARIES OF THE REGISTRANT

December 31, 1981

The following is a list of subsidiaries, all of which are included in the Company's consolidated financial statements, the percentage of voting securities owned by the Company and the state of incorporation of each:

<u>Name of Subsidiary</u>	<u>Percentage of Voting Securities Owned</u>	<u>State of Incorporation</u>
RegO Company	100	Delaware
RegO Distribution Center, Inc.	100	Delaware
4201 W. Peterson Corporation	100	Delaware
RegO International, Inc.	100	Illinois

LS 002726

THE *REGO* GROUP, INC.

ANNUAL REPORT 1981

LS 002727

The RegO Group, Inc.
1981 ANNUAL REPORT TO SHAREHOLDERS

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LS 002728

To Our Shareholders

Sales in 1981 of \$46,328,000 were substantially equal to 1980. Net income for 1981 was \$3,398,000 or 5% less than 1980 net income of \$3,573,000.

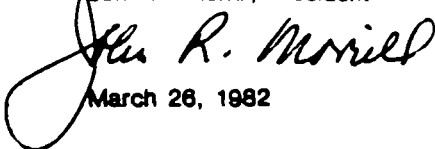
The lack of growth in 1981 net sales and the decrease in net income are the result of various factors. Slack demand for the Company's products, particularly in residential housing, was somewhat overcome by selective price increases and increased emphasis on cost reduction.

Increased interest income was offset by start-up costs associated with the North Carolina plant, higher product liability costs and increased marketing expenses.

Greater utilization of our North Carolina plant and continued review of all operations should enable us to overcome the problems of a declining trend in our markets. The management and employees of The RegO Group, Inc. will continue their efforts to meet these challenges.

Sincerely,

John R. Morrill, President

A handwritten signature in dark ink, appearing to read "John R. Morrill", with a large, stylized loop at the beginning.

March 26, 1982

LS 002729

GENERAL INFORMATION

OFFICERS AND DIRECTORS

*†W. Featherstone
Mining Engineer
Hayden Lake, Idaho

* R. C. Gluth
Vice President and Treasurer
The RegO Group, Inc.
Executive Vice President
The Marmon Group, Inc.
(diversified manufacturing)

* G. A. Jones
Executive Vice President
The Marmon Group, Inc.
(diversified manufacturing)

*†H. F. Magnuson
Partner
H. F. Magnuson & Company
(Certified Public Accountants)
Wallace, Idaho

* J. R. Morrill
President and Chief Executive Officer
The RegO Group, Inc.

* R. A. Pritzker
President
The Marmon Group, Inc.
(diversified manufacturing)

W. S. Rogowski
Secretary and General Counsel
The RegO Group, Inc.
Vice President, Secretary and General Counsel
The Marmon Group, Inc.
(diversified manufacturing)

*†G. P. Smith
Chairman of the Board
The RegO Group, Inc.

D. V. Ytterberg
Vice President
The RegO Group, Inc.

C. D'Ascenzo
Assistant Secretary
The RegO Group, Inc.

* Director of The RegO Group, Inc.

† Member of the Audit Committee

TRANSFER AGENT & REGISTRAR

American National Bank & Trust Company
of Chicago
33 North LaSalle Street
Chicago, Illinois 60690
312-661-5000

AUDITORS

Arthur Young & Company
One IBM Plaza
Chicago, Illinois 60611
312-751-3000

ANNUAL MEETING

The RegO Group, Inc. annual meeting of shareholders will be at 2:30 P.M. on June 14, 1982 at the offices of the Company, 39 South LaSalle Street, Chicago, Illinois 60603.

FORM 10-K

A copy of the Annual Report to the Securities and Exchange Commission on Form 10-K may be obtained from the Company at no expense to the shareholder. Direct your written request to:

Mr. Walter S. Rogowski, Secretary
The RegO Group, Inc.
39 South LaSalle Street
Chicago, Illinois 60603

BUSINESS DESCRIPTION

The Company is engaged in the manufacture and sale of pressure regulators and other devices (valves, manifolds, fittings and related equipment) used to control the flow of gases and liquids. A significant portion of the sales are to the propane, construction and plumbing industries.

LS 002730

CAPITAL STOCK AND RELATED MATTERS

CAPITAL STOCK

Common Stock of The RegO Group, Inc. (the Company) is traded on the Pacific, Spokane and Intermountain Stock Exchanges (symbol: REG). The Company's \$1.00 Cumulative Convertible Preferred Stock is traded on the Pacific Stock Exchange (symbol: REG. PR). The Marmon Group, Inc., 39 South LaSalle Street, Chicago, Illinois 60603, owns 92.4% of the Company's common shares and 81.8% of its preferred shares.

The quarterly high and low prices of the Company's common and preferred stock for the past two years as reported by the Pacific Stock Exchange were:

	Common		Preferred	
	High	Low	High	Low
1981				
First Quarter	\$8	\$7½	\$22	\$21½
Second Quarter	8¼	7½	23	22
Third Quarter	7¾	7	22	20¾
Fourth Quarter	7¼	6¾	20½	20¼
1980				
First Quarter	\$8¾	\$5¾	\$19¾	\$18
Second Quarter	6½	5	19¾	17
Third Quarter	6½	6	20	20
Fourth Quarter	7¾	6¾	21	20¾

No dividend has been paid on the common stock during the past two years. A dividend of \$.25 per share was paid in each quarter of 1981 and 1980 on the preferred stock. Information with respect to restrictions on the Company's present or future ability to pay dividends on the common stock is included in Note 4 of Notes to Consolidated Financial Statements included herein.

APPROXIMATE NUMBER OF EQUITY SECURITY HOLDERS

<u>TITLE OF CLASS</u>	<u>NUMBER OF RECORD HOLDERS AS OF FEBRUARY 25, 1982</u>
\$1.00 Cumulative Convertible Preferred Stock	459
Common Stock	901
7% Convertible Subordinated Debentures, due January 1, 1990.....	467

LS 002731

The RegO Group, Inc.

CONSOLIDATED BALANCE SHEET

ASSETS

(In thousands of dollars)

	December 31,	
	1981	1980
Current assets		
Cash	\$ 812	\$ 1,164
Investment agreement receivable—parent	22,638	17,833
Accounts receivable, less allowance of \$131 in 1981 and \$139 in 1980	6,082	6,239
Inventories	10,265	10,065
Deferred income taxes	621	587
Other current assets	131	546
Total current assets	40,549	36,434
Property, plant and equipment		
Land	224	234
Buildings and improvements	3,651	3,623
Machinery and equipment	12,350	10,879
	16,225	14,736
Less accumulated depreciation	9,406	8,429
Property, plant and equipment—net	6,819	6,307
Excess of cost over underlying equity in net assets acquired	3,135	3,135
Funds for construction held by trustee	3,079	—
Other assets	299	330
	<u>\$53,881</u>	<u>\$46,206</u>

LS 002732

The RegO Group, Inc.

CONSOLIDATED BALANCE SHEET

LIABILITIES AND SHAREHOLDERS' EQUITY

(In thousands of dollars)

	December 31,	
	1981	1980
Current liabilities		
Accounts payable—trade	\$ 1,912	\$ 1,884
Accounts payable—parent	1,345	1,499
Income taxes—principally payable to parent	2,741	2,150
Accrued liabilities	2,502	2,350
Current maturities of long-term debt	161	145
Total current liabilities	8,661	8,028
Long-term debt	4,376	4,937
Long-term obligation under capital lease	5,000	—
Other noncurrent liabilities	401	346
Deferred income taxes	567	541
Contingent liabilities		
Shareholders' equity		
\$1.00 Cumulative Convertible Preferred stock—authorized 919,523 shares, issued and outstanding—344,226 shares in 1981 and 354,673 shares in 1980 (redemption and liquidation value: 1981—\$12,908; 1980—\$13,300)	344	355
Common stock—authorized 7,500,000 shares; \$.01 par value; issued—2,862,741 shares in 1981 and 2,857,360 in 1980	29	29
Other paid-in capital	5,812	5,967
Retained earnings	30,300	27,256
	36,485	33,607
Less common stock in treasury—at cost:		
1981—253,113 shares; 1980—208,156 shares	1,609	1,253
Total shareholders' equity	34,876	32,354
	<u>\$53,881</u>	<u>\$46,206</u>

See Notes to Consolidated Financial Statements.

LS 002733

CONSOLIDATED STATEMENT OF INCOME

(In thousands of dollars, except net income per common share)

	Years ended December 31.		
	1981	1980	1979
Revenues			
Net sales	\$46,328	\$46,162	\$42,607
Other income (principally interest from parent)	5,172	3,068	2,037
	<u>51,500</u>	<u>49,230</u>	<u>44,644</u>
Cost and expenses			
Cost of sales (including purchases from parent of \$5,372, \$7,612 and \$4,786, respectively)	35,170	34,163	31,818
Selling and administrative expense	9,023	7,894	6,508
Interest expense	936	470	503
	<u>45,129</u>	<u>42,527</u>	<u>38,829</u>
Income before allocation of income taxes	6,371	6,703	5,815
Allocation of income taxes from parent	2,973	3,130	2,779
Net income	<u>\$ 3,398</u>	<u>\$ 3,573</u>	<u>\$ 3,036</u>
Net income per common share			
Primary	<u>\$ 1.07</u>	<u>\$ 1.12</u>	<u>\$.95</u>
Fully diluted	<u>\$ 1.02</u>	<u>\$ 1.06</u>	<u>\$.90</u>

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

Years ended December 31, 1981, 1980 and 1979

(In thousands of dollars)

	<u>\$1.00 Cum- ulative Con- vertible Preferred stock</u>	<u>Common stock</u>	<u>Other paid-in capital</u>	<u>Retained earnings</u>	<u>Common stock in treasury</u>	<u>Total</u>
Balance at December 31, 1978	\$360	\$29	\$6,069	\$21,362	\$(1,110)	\$26,710
Purchases during the year	(4)		(77)		(125)	(206)
Net income				3,036		3,036
Preferred dividends paid				(359)		(359)
Balance at December 31, 1979	356	29	5,992	24,039	(1,235)	29,181
Purchases during the year	(1)		(25)		(18)	(44)
Net income				3,573		3,573
Preferred dividends paid				(356)		(356)
Balance at December 31, 1980	355	29	5,967	27,256	(1,253)	32,354
Purchases during the year	(11)		(155)		(356)	(522)
Net income				3,398		3,398
Preferred dividends paid				(354)		(354)
Balance at December 31, 1981	<u>\$344</u>	<u>\$29</u>	<u>\$5,812</u>	<u>\$30,300</u>	<u>\$(1,609)</u>	<u>\$34,876</u>

See Notes to Consolidated Financial Statements.

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The RegO Group, Inc.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(In thousands of dollars)

	Years ended December 31,		
	1981	1980	1979
Sources of working capital			
Operations			
Net income	\$ 3,398	\$ 3,573	\$ 3,036
Charges (credits) not involving working capital			
Depreciation	1,425	1,171	1,052
Deferred income taxes	26	(6)	(22)
Pension	55	154	192
Other	31	31	36
Total from operations	4,935	4,923	4,294
Disposition of equipment	90	10	3
Increase in long-term obligation under capital lease	5,000	—	—
Total sources	10,025	4,933	4,297
Dispositions of working capital			
Purchase of property, plant and equipment	2,027	2,939	999
Increase in funds for construction held by trustee	3,079	—	—
Reduction of long-term debt	581	401	362
Payment of preferred dividends	354	356	359
Purchase of capital stock	522	44	206
Total dispositions	6,543	3,740	1,926
Increase in working capital	\$ 3,482	\$ 1,193	\$ 2,371
 Changes in elements of working capital			
Increase (decrease) in current assets			
Cash and investment agreement receivable	\$ 4,453	\$ 1,251	\$ 3,599
Accounts receivable—net	(157)	402	1,071
Inventories	200	138	(1,363)
Deferred income taxes	34	158	(212)
Other current assets	(415)	125	310
	<u>4,115</u>	<u>2,072</u>	<u>3,405</u>
(Increase) decrease in current liabilities			
Accounts payable	126	(456)	245
Income taxes	(591)	(405)	(670)
Accrued liabilities	(152)	(5)	(596)
Current maturities of long-term debt	(16)	(13)	(13)
	<u>(833)</u>	<u>(879)</u>	<u>(1,034)</u>
Increase in working capital	3,482	1,193	2,371
Working capital at beginning of year	28,406	27,213	24,842
Working capital at end of year	\$31,888	\$28,406	\$27,213

See Notes to Consolidated Financial Statements.

LS 002735

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts are in thousands of dollars, except per share data)

Note 1. Summary of significant accounting policies

The following is a summary of significant accounting policies of The RegO Group, Inc. (the Company). The Marmon Group, Inc. (Marmon or parent) owns 81.8% of the Company's preferred stock and 92.4% of its outstanding common stock, representing 91.2% of the outstanding voting interest of the Company. Marmon is a subsidiary of GL Corporation (GL), which became a wholly-owned subsidiary of New TU, Co. on December 31, 1981 as part of a corporate reorganization.

Consolidation—all subsidiaries are consolidated.

Inventories—are valued at the lower of last-in, first-out (LIFO) cost or market.

Property, plant and equipment—are recorded at cost. Depreciation provisions are determined principally on the straight-line method for assets acquired prior to 1977 and on accelerated methods for subsequent acquisitions. Expenditures for maintenance and repairs are charged to expense as incurred. Significant renewals and betterments are capitalized. Gains or losses on disposals are included in earnings.

Deferred income taxes—are provided on nonpermanent differences between financial statement and taxable income.

Investment tax credits—are accounted for under the flow-through method.

Excess of cost over underlying equity in net assets acquired—the amount shown in the balance sheet arose prior to 1971 and is not being amortized because, in the opinion of management, there has been no diminution of value.

Pension costs—are actuarially determined and consist of current service costs, interest on unfunded past service liabilities and amortization of prior service costs principally over 10 years. Current service costs and interest on unfunded past service liabilities are funded as accrued and prior service costs are generally funded over 30 years.

Note 2. Inventories

Inventories valued under the LIFO method were approximately \$4,600,000 less than the current cost of such inventories at December 31, 1981 (\$4,075,000 at December 31, 1980). Reductions in the levels of certain inventories carried at LIFO costs increased 1979 net income by approximately \$170,000 (\$.05 per share—primary and fully diluted). The classification of inventories by stage of production is not practicable.

Note 3. Accrued liabilities

		<u>December 31,</u>	
		<u>1981</u>	<u>1980</u>
Compensation		\$ 268	\$ 347
Employee benefits		1,049	1,081
Product liability		671	563
Other		514	359
		<u>\$ 2,502</u>	<u>\$ 2,350</u>

Note 4. Long-term obligations

A. Debt

		<u>December 31,</u>	
		<u>1981</u>	<u>1980</u>
7% convertible subordinated debentures, due January 1, 1990		\$2,597	\$2,997
10% first mortgage note, payable in monthly installments of \$28,975 including interest, final payment due April 1, 1990		1,940	2,085
		<u>4,537</u>	<u>5,082</u>
Less current maturities		161	145
		<u>\$4,376</u>	<u>\$4,937</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The 7% convertible subordinated debenture agreement contains covenants which provide, among other things, that consolidated working capital will be maintained at not less than \$10,000,000 and that the Company will not pay cash dividends on its common stock or acquire, for cash, any shares of its common stock in excess of \$1,000,000 plus its cumulative consolidated net income, less preferred dividends and net amounts paid for common stock purchases after November 30, 1969. At December 31, 1981, retained earnings of \$14,904,000 were restricted as to the payment of cash dividends on common stock and the purchase of shares of common stock.

The trust indenture underlying the 7% convertible subordinated debentures provides, among other things, that the debentures are redeemable at the Company's option at prices ranging from 101% in 1982 to 100% in 1984 of the principal amount of the debentures, and that sinking fund payments of \$325,000 are required annually with an option to make additional annual payments of \$325,000 without premium; such payments can be reduced by the principal amount of debentures acquired by the Company or converted into common stock. All of the 1982 installment and \$128,000 of the 1983 installment have been satisfied. The debentures are convertible into shares of common stock (subject to anti-dilution provisions) at a conversion price of \$10.67 per share.

The net book value of the property subject to the 10% first mortgage note was \$675,000 at December 31, 1981.

The aggregate amounts of long-term debt maturing in each of the years 1983-1986 are \$375,000 in 1983, \$521,000 in 1984, \$542,000 in 1985 and \$565,000 in 1986.

B. Obligation under capital lease

In September 1980, the Company purchased \$1,050,000 of land and buildings which were refinanced in February 1981 through an industrial revenue bond. Proceeds of the \$5,000,000 bond, due February 1, 1984 with quarterly interest payments at 60% of a specified bank's prime rate, in excess of amounts requisitioned to reimburse expenditures for the project, are held for investment by a trustee. Property, plant and equipment financed by the bond (\$1,840,000 net book value at December 31, 1981) and funds for construction held by trustee (\$3,079,000 at December 31, 1981) are subject to lien.

Note 5. Income taxes

Through 1980, the Company had been included in the consolidated federal income tax returns of GL. As a result of a corporate reorganization on December 31, 1981, the Company will be included in the 1981 consolidated federal income tax return of New TU, Co. As a member of a consolidated federal income tax group, the Company is contingently liable for federal income taxes attributable to other members of the group. However, GL has indemnified the Company against any such liability.

Under the terms of a tax sharing agreement with Marmon, federal income taxes are computed as if the Company and its subsidiaries file a separate consolidated return and liabilities are remitted to, and benefits and refunds are obtained from, Marmon on this basis.

The allocation of income taxes consists of:

	<u>1981</u>	<u>1980</u>	<u>1979</u>
Current			
Federal	\$ 2,566	\$ 2,854	\$ 2,259
State	415	438	330
Deferred, principally federal	(8)	(162)	190
	<u>\$ 2,973</u>	<u>\$ 3,130</u>	<u>\$ 2,779</u>

The effective tax rates of 46.7%, 46.7% and 47.8% for 1981, 1980 and 1979, respectively, differ from the statutory federal rate of 46% principally as a result of investment tax credits (\$132,000, \$162,000 and \$62,000 in 1981, 1980 and 1979, respectively) and state income taxes net of the federal income tax benefits.

The allocation of deferred income taxes results principally from inventory valuation reserves and product liability allowances.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 6. Pension plans

The Company has pension plans covering substantially all employees. Pension expense for the years ended December 31, 1981, 1980 and 1979 was \$643,000, \$814,000 and \$947,000, respectively. The decrease in pension expense in 1981 resulted from plan amendments and in 1980 resulted from the termination of two plans. A comparison of accumulated plan benefits and plan net assets for the Company's defined benefit plans at January 1, 1981 (date of latest actuarial valuation) and January 1, 1980 is presented below:

	January 1,	
	1981	1980
Actuarial present value of accumulated plan benefits:		
Vested	\$4,933,000	\$4,867,000
Nonvested	552,000	485,000
	<u>\$5,485,000</u>	<u>\$5,352,000</u>
Net assets available for benefits including balance sheet accruals	<u>\$4,307,000</u>	<u>\$3,125,000</u>

The assumed rate of return used in determining the benefits was 7.5%. The costs of the plans are accounted for and funded based on calculations which use an actuarial method that anticipates future salary increases, whereas the actuarial present value of accumulated plan benefits shown above does not anticipate such increases.

Note 7. Contingent liabilities

A number of product liability claims have been asserted and, based upon the Company's historical experience, additional claims might be asserted two or more years following the alleged product malfunction. Under the terms of the Company's present primary liability insurance coverage, the Company is liable for an uninsured deductible portion of \$100,000 per occurrence (not to exceed \$2,000,000 for any single policy year) for product liability claims resulting from incidents occurring after August 31, 1980. For the period September 1, 1979 to August 31, 1980, the Company is liable for an uninsured deductible portion of \$100,000 per occurrence for product liability claims (not to exceed \$1,500,000). For the period January 1, 1977 to August 31, 1979, the Company is liable for an uninsured deductible portion of \$200,000 per occurrence for product liability claims plus the next \$400,000 or \$500,000 of each claim up to an aggregate loss for each year of occurrence of \$900,000 or \$1,000,000 with respect to claims in excess of \$200,000 per occurrence. Prior to December 31, 1976 the Company does not have a material exposure for product liability claim losses as a result of the product liability insurance coverage in force at that time.

Allowances are provided when the amount of the product liability loss can be reasonably estimated. However, management cannot determine the additional losses, if any, that may be incurred. Management believes that such additional losses, if incurred, could be material.

Note 8. Capital stock

The outstanding preferred stock is entitled to preferential cumulative annual dividends at the rate of \$1.00 per share and is redeemable at the Company's option at \$37.50 per share, plus unpaid cumulative dividends. The preferred stock has liquidation rights over the common stock in any final distribution and is entitled to one vote for each share held. In addition, the outstanding preferred shares are convertible into common shares at the option of the holder at the rate of one and one-half shares of common stock for each preferred share held, subject to anti-dilution provisions.

At December 31, 1981, 759,732 shares of authorized but unissued common shares are reserved for conversion of preferred stock (516,339 shares) and for conversion of the 7% convertible subordinated debentures (243,393 shares).

Note 9. Net income per common share

Primary net income per share is based on net income and the weighted average number of shares of common stock and common stock equivalents (shares issuable upon the assumed conversion of preferred stock) outstanding during the year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Fully diluted net income per share reflects the assumed conversion of the outstanding convertible debentures, as if the conversion had taken place at the beginning of the year, and the restoration to income of the related interest, net of applicable income taxes.

Note 10. Related party transactions

Transactions between the Company and related companies, at prices and upon terms determined by the parties, include:

	1981	1980	1979
Interest income(a)	\$4,095	\$2,369	\$1,640
Management fee charged by Marmon(b)	132	126	116
Product liability insurance expense	269	392	106

(a) The Company has an informal investment agreement with Marmon whereby a portion of the Company's excess funds are invested by or made available to Marmon. Since February 1981, Marmon has had borrowings under certain bank credit agreements. While loans under these agreements are outstanding, Marmon intends to pay interest under the informal investment agreement with the Company at the greater of (i) the rate Marmon earns on its short-term investments or (ii) the effective rate Marmon incurs on its bank loans. For substantially all of 1981, the Company earned interest at the effective rate which Marmon incurred on the bank loans (16.5% at December 31, 1981).

(b) The management fee covers certain services, including general management, personnel, certain insurance, pension plan, legal, accounting and taxation matters and other similar matters which Marmon provides to its divisions, subsidiaries and related companies.

The Company does not have any other significant transactions with Marmon or other related companies other than certain expenses which are directly attributable to the Company and which are paid by Marmon and charged to the Company, federal income taxes (Note 5) and purchases, as shown in the accompanying consolidated statement of income.

Note 11. Industry Segment Information

The Company, which does not have foreign operations, has operated in one industry for each of the last three years—the manufacture and sale of pressure regulators and other devices used to control the flow of gases and liquids. A significant portion of the sales are to the propane, construction and plumbing industries.

Export sales to the following geographic areas were:

	1981	1980	1979
Canada	\$2,586	\$2,427	\$2,473
Central and South America	2,670	1,439	880
Europe	547	902	454
Asia and Far East	1,191	712	841
Africa and Near East	591	605	256
United Kingdom	258	388	251
	<u>\$7,843</u>	<u>\$6,473</u>	<u>\$5,155</u>

12. Quarterly Data (unaudited)

	Quarter Ended							
	March 31,		June 30,		September 30,		December 31,	
	1981	1980	1981	1980	1981	1980	1981	1980
Net sales	\$ 11,546	\$ 12,023	\$ 11,652	\$ 12,118	\$ 11,402	\$ 10,728	\$ 11,728	\$ 11,293
Gross profit	2,409	2,753	2,831	3,093	2,640	2,644	3,278	3,509
Net income	645	906	792	835	921	736	1,040	1,096
Net income per common share								
Primary .....	.20	.28	.25	.26	.29	.23	.33	.34
Fully diluted .....	.19	.27	.24	.25	.27	.22	.31	.32

Inventory adjustments increased fourth quarter net income by \$460,000 or \$.15 per share (\$.14 on a fully diluted basis) in 1981 and by \$500,000 or \$.16 per share (\$.14 on a fully diluted basis) in 1980.

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
and Shareholders
The RegO Group, Inc.

We have examined the consolidated balance sheets of The RegO Group, Inc. (the Company) at December 31, 1981 and 1980, and the related consolidated statements of income, shareholders' equity and changes in financial position for each of the three years in the period ended December 31, 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 7, the Company is subject to possible losses relating to uninsured product liability claims. It is not possible at this time to determine the additional losses, if any, that may be incurred.

In our opinion, subject to the effects of such adjustments, if any, as might have been required had the ultimate resolution of the matter discussed in the preceding paragraph been known, the statements mentioned above present fairly the consolidated financial position of The RegO Group, Inc. at December 31, 1981 and 1980, and the consolidated results of operations and changes in financial position for each of the three years in the period ended December 31, 1981, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

ARTHUR YOUNG & COMPANY

Chicago, Illinois
March 17, 1982

LS 002740

SELECTED FINANCIAL DATA

(In thousands of dollars, except per share data)

	Years ended December 31,				
	1981	1980	1979	1978	1977
Net sales	\$46,328	\$46,162	\$42,607	\$35,010	\$34,324
Net income (Notes A and B)	3,398	3,573	3,036	1,733	2,245
Net income (loss) per share					
Primary	1.07	1.12	.95	.51	.68
Fully diluted	1.02	1.06	.90	.49	.65
Cash dividends per common share	—	—	—	—	—
Total assets	53,881	46,206	42,407	39,094	38,121
Long-term debt and obligation	9,376	4,937	5,338	5,700	6,307

(A) Reductions in the levels of certain inventories carried at LIFO costs increased 1979 net income by approximately \$170,000 (\$.05 per share—primary and fully diluted).

(B) The adoption of the LIFO method of inventory valuation reduced 1977 net income by \$891,000 or \$.27 per share (\$.24 on a fully diluted basis).

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

1981 vs. 1980

Working capital increased 12% or \$3,482,000. A \$5,000,000 industrial revenue bond was issued in early 1981. A portion (approximately \$2,000,000) of the proceeds was used to refinance the 1980 acquisition of, and the 1981 purchases of equipment for, the new facility in North Carolina for the manufacture of small valves and regulators. The balance of the proceeds is being held by a trustee, in income-producing investments, pending future equipment purchases. Such funds plus amounts expected to be generated from 1982 operations should be adequate to meet the Company's 1982 capital needs.

Net sales were flat between 1981 and 1980. Selective price increases were made where operating costs constituted a major component of the product cost. Selective discounting of brass fittings, where declining material costs were a major factor, was necessary during the year.

Gross profit as a percentage of sales decreased from 26% to 24% due to the start-up costs at the North Carolina plant and increased sales discounts.

Selling and administrative costs increased, reflecting significantly higher costs associated with product liability claims as well as increased marketing expenses.

Increased interest income is the result of a larger amount under the informal investment agreement, higher interest rates in effect throughout much of 1981 and the additional income earned on funds held for future construction by trustee.

Management programs to lessen the effects of inflation consist of selective price increases to the extent allowed by competition, upgrading of production facilities to achieve greater efficiency and cost reduction programs.

1980 vs. 1979

Working capital increased 4% or \$1,193,000. Accounts receivable increased primarily due to higher selling prices, although the number of days sales outstanding in accounts receivable decreased slightly. Inventories and accounts payable-trade increased due to higher costs of raw materials. Inventory turnover increased as a result of increased unit volume while maintaining controlled inventory levels.

In September 1980, the Company purchased land and a building in North Carolina (see above).

Net sales increased 8% for all of 1980. Gains were made in the first half of 1980 from higher unit volume of liquified petroleum gas (LPG) products. However, demand returned to 1979 levels during the second half of 1980. Selling price increases initiated during the second quarter were partially offset by selective discounting of selling prices of brass fittings later in the year.

Gross profit as a percentage of sales increased slightly from 25% to 26% as higher raw material costs were offset by increased volume and selling prices, which in turn were offset somewhat by selective price discounting.

Selling and administrative costs increased, reflecting higher litigation and insurance costs for product liability and preoperating costs at the new facility in North Carolina.

Increased interest income reflects the high interest rates in effect throughout much of 1980.

The effective income tax rate decreased primarily as a result of increased investment tax credits.

Order backlog at the end of the year dropped 11%, reflecting lower customer demand resulting from general economic conditions.